

City of Farmers Branch, Texas
Comprehensive Annual Financial Report

For the Year Ended September 30, 2005

City Council:

Bob Phelps
Charlie Bird
Ben Robinson
Tim O'Hare
Junie Smith
Bill Moses

Mayor
Mayor Pro Tem, Place 1
Deputy Mayor Pro Tem, Place 5
Place 2
Place 3
Place 4

City Manager

Linda Groomer

Prepared by

Finance Department
Charles S. Cox, Director

CITY OF FARMERS BRANCH, TEXAS

Comprehensive Annual Financial Report
For the Year Ended September 30, 2005

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January 23, 2006

Honorable Mayor and City Council
City of Farmers Branch
Farmers Branch, Texas

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Farmers Branch, Texas for the year ended September 30, 2005. The purpose of the report is to provide the Council, management, staff, the public and other interested parties with detailed information reflecting the City's financial condition.

THE REPORT

The Texas Local Government code (§103.001) requires annual audits of municipalities and the City Charter (Sec. 2-18) requires an annual audit of the books of account, financial records, and other evidence of transactions by a certified public accountant within 120 days of the end of the fiscal year. These requirements have been fulfilled and the independent auditors' report is included with this report for the fiscal year ended September 30, 2005.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Deloitte & Touche L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Farmers Branch's financial statements for the year ended September 30, 2005. The independent auditors' report is located at the front of the financial section of this report.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The report is presented in four sections: introductory, financial, statistical, and continuing financial disclosure tables. The introductory section includes this letter of transmittal, the City's organizational chart, a list of principal officials, and the Government Finance Officers Association of the United States (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the City's 2004 report. The financial section includes management's discussion and analysis (MD&A), government-wide and fund financial statements, notes to basic financial statements, and required supplemental information, as well as the independent auditors' report on the basic financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. The continuing financial disclosure tables present various financial data originally distributed in a debt official statement.

Management's discussion and analysis immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Farmers Branch (City) covers approximately 12.5 square miles and is conveniently located on Dallas' northern border. It lies in the heart of an 11-county area that has emerged as a premier commercial, financial, and trading center. Two major interstate highways and the Dallas North Tollway border the City. The Dallas/Fort Worth International Airport and the Dallas Love Field Airport are only minutes from Farmers Branch. These factors all contribute to the favorable business climate existing within the City.

The City of Farmers Branch was incorporated in 1946 under the general laws of the State of Texas. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council (Council) consisting of the Mayor and five other at-large members, all elected on a non-partisan basis. The term of office is three years, with the terms of the Mayor and three of the Councilmembers' terms expiring in even-numbered years and the terms of the other two Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City.

Although the residential population has been recently estimated at 27,595, Farmers Branch serves a daytime population of approximately 85,000. The City provides a full range of municipal services including police, fire, emergency ambulance, sanitation, library, construction and maintenance of streets and municipal utilities, parks and recreation, water and sewer, planning and zoning, economic development, and general administrative functions. The City of Farmers Branch also is financially accountable for the Farmers Branch Housing Finance Corporation and the Farmers Branch Industrial Development Corporation, which are included as discretely presented component units and the North Dallas County Water Supply Corporation, which is included as a joint venture. Additional information on these three entities can be found in the notes to the financial statements (See Note 1.A).

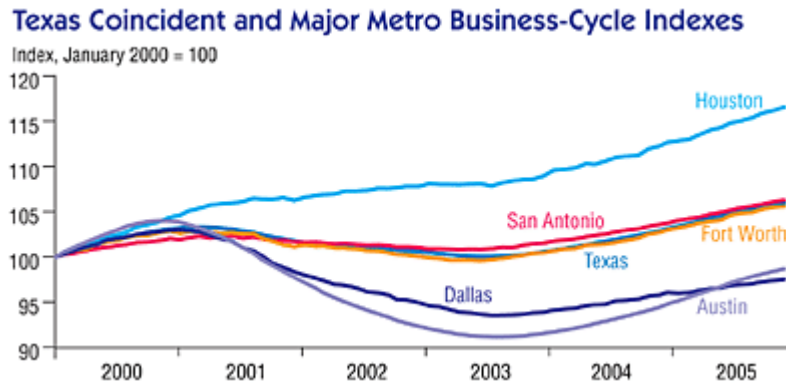
The Council enacts the budget through passage of an ordinance prior to the start of each fiscal year. This budget serves as the foundation for the City of Farmers Branch's financial planning and control. Annual budgets are prepared for all governmental funds including the general fund, debt service fund, and special revenue funds. Capital projects funds are budgeted over the life of the project. The City Manager is authorized to transfer resources within each division's summary budget category. Council approval is necessary for all other transfers (See Note 2.A).

LOCAL ECONOMY

The City's broadly diversified economic base supports home furnishings, financial, high-tech, insurance, and telecommunications industries, and includes many of the nation's foremost businesses. Farmers Branch is the location of choice for 65 corporate headquarters, 24 Fortune 500 corporations, and approximately 2,600 small and mid-size firms. Seventy-six (76) percent of the City's tax base comes from the business community. The occupancy rate for office space and retail/industrial/warehouse space is 72 and 80 percent respectively. These occupancy rates are consistent with the average rates in the north Dallas area.

According to the Federal Reserve Bank of Dallas' December 2005 economic report, the Dallas metropolitan area economy continues to be restrained by job losses in the information (telecommunications) and air transportation industries. Still the metro's business-cycle index (a

business-cycle index of current economic indicators) rose by a moderate 1.8 percent pace in November 2005. The Dallas area economy generated a job gain of 3,400 during the month. Construction employment picked up strongly in November, as residential construction remained strong and commercial construction picked up downtown and in the northern suburbs. In addition, the leisure and hospitality industry exhibited strong job growth during the month.



The Dallas/Fort Worth metroplex and Farmers Branch have experienced an economic downturn that was deeper and longer lasting than anticipated. During the past ten years, both fiscal year 2002 and fiscal year 2003 tied for the highest unemployment rate with 6.5 percent. The lowest unemployment rate in the decade was 3.0 percent in 1999. The unemployment rate in Farmers Branch for fiscal year 2005 at 5.3 percent shows a continuing, slow trend of improvement that began last fiscal year.

General fund revenues continued a gradual recovery in fiscal year 2005. Total revenues of \$37.0 million represented an increase of 3.1% over the prior year. Reflecting the region's general recovery, sales tax receipts increased 5.0%. Property tax rates were increased in fiscal year 2005 in order to offset continued declines in property values.

The fiscal year 2006 budget was developed anticipating a gradual turnaround in the economy; however, expenditure growth for items such as fuel, utilities, and insurance continue to outpace revenue growth creating a challenge for the City. Budgeted 2006 general fund revenues are \$3.4 million less than in the fiscal year 2002 adopted budget representing an 8.3% drop. This fact alone emphasizes the challenge that the City has faced over the past four years. Property and sales tax revenues, representing two-thirds of total general fund revenues, have still not returned to the levels budgeted in fiscal year 2002. Significant cost reductions have been implemented during this time in order to adjust to the reduced revenues. All programs, projects, and staffing levels have been well examined to determine how costs could be lowered and how services could be offered more cost effectively without being adversely impacted.

LONG-TERM FINANCIAL PLANNING

Users of this document as well as others interested in the programs and services offered by the City of Farmers Branch are encouraged to read the City's 2005-2006 Fiscal Year Budget. The document details the City's long-term goals and financial policies, describes program accomplishments and initiatives, and outlines the City's capital improvement program. The City's Budget also includes long-term financial plans for the general fund that forecasts revenues and expenditures over a five-year horizon. The document can be obtained from the City of Farmers Branch's finance department by calling (972) 247-3131. The Budget can also be

accessed through the City's web site at www.farmersbranch.info and selecting the Finance department using the web site's "department quicklink".

Fire Station No. 3 was proposed several years ago to respond to growth anticipated on the west side of the City. As the economic downturn virtually brought that growth to a halt, the City delayed construction of Fire Station No. 3. Commencement of bidding and construction is scheduled to begin in fiscal year 2008. Staffing costs of the station is anticipated to exceed \$1 million annually when the station opens.

The Public Improvement District (PID) program, without which development on the east side could not have occurred, provided tax abatement incentives for development. Development initiated in this district will add \$1.4 million in property tax revenues once the ten-year incentives begin to expire. These incentives began to expire in fiscal year 2004 at which time \$400,000 was added to property tax revenues. This amount will continue to increase until fiscal year 2009 when \$1.4 million dollars in tax revenue will be added. Similar long-term improvements to the City's tax base should come from the Tax Increment Finance (TIF) district formed in the light rail station area and on the City's west side.

Beginning in fiscal year 2008, the City's annual general government supported debt service requirements will drop from an average of \$3.4 million to approximately \$400,000 provided the City continues with the pay-as-you-go approach and avoids issuing any additional general obligation debt.

RELEVANT FINANCIAL POLICIES

The City's fund balance/operating position concept continues to be an important factor in policy decisions. The concept notes that the City will maintain an undesignated, unreserved fund balance to be used for unanticipated emergencies of 25% of the operating budget of the general fund. A net current assets balance of \$2.0 million is targeted for the water and sewer (enterprise) fund. These monies will be used to avoid cash flow interruptions, generate interest income, reduce the need for short-term borrowing, and assist in maintaining an investment-grade rating.

The City of Farmers Branch invests funds prudently and has adopted an investment policy which is reviewed annually by the City Council as prescribed by State law. Staff provides a quarterly report of investments for Council review. The City's investment practice is to buy securities and hold them to maturity to avoid potential losses from a sale. During fiscal year 2005, the City complied with all aspects of the investment policy.

MAJOR INITIATIVES

In 1998, the City established a Tax Increment Finance District for the City's west side. This District encompasses over 800 acres of unimproved land. The goal of this District is to spur development in the last major undeveloped area of the City. Since the District was created, taxable values within the District have increased by \$31.9 million. Property taxes associated with this increment are used to accelerate public infrastructure improvements within the District. All taxing entities participate in funding these improvements. The District will legally expire in 2018.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Farmers Branch for its comprehensive annual financial report for the fiscal year ended September 30, 2004. This was the sixteenth consecutive

year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City believes its current CAFR continues to meet the Certificate of Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning October 1, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

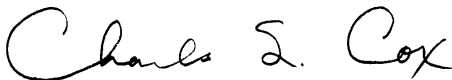
The preparation of this report on a timely basis was made possible by the dedicated service of the entire staff of the finance department and our independent auditors. We would also like to express sincere appreciation to all employees who contributed to its preparation.

In closing, without the leadership and support of the City Council, preparation of this report would not have been possible.

Sincerely,

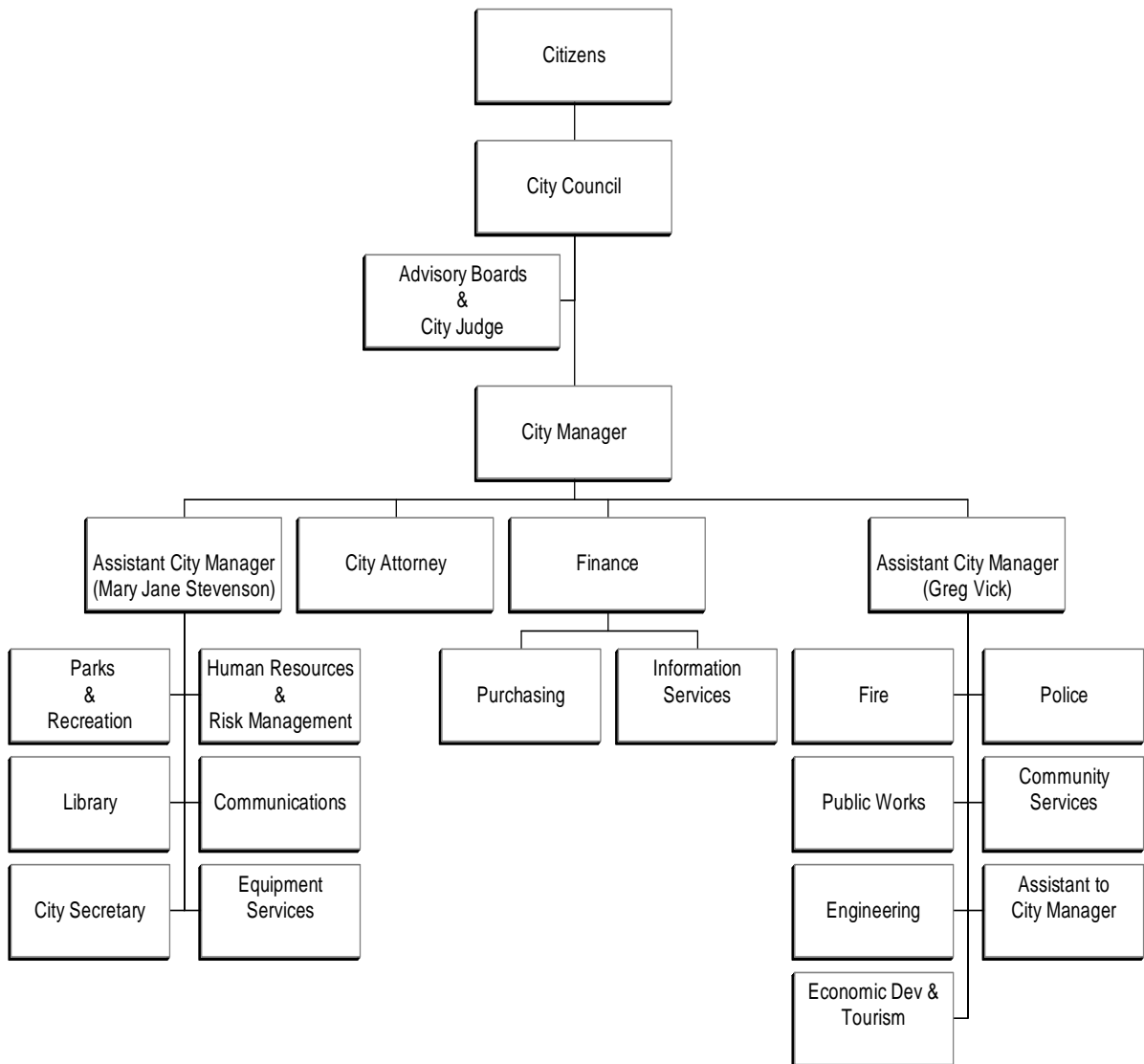
A handwritten signature in black ink, reading "Linda Groomer". The script is fluid and cursive, with the first name "Linda" being more prominent than the last name "Groomer".

Linda Groomer
City Manager

A handwritten signature in black ink, reading "Charles S. Cox". The signature is written in a cursive style, with "Charles" and "Cox" being clearly legible, and "S." in the middle.

Charles S. Cox
Director of Finance

City of Farmers Branch



City of Farmers Branch, Texas
List of Principal Officials

City Council

Bob Phelps	Mayor
Charlie Bird	Mayor Pro Tem, Place 1
Ben Robinson	Deputy Mayor Pro Tem, Place 5
Tim O'Hare	Place 2
Junie Smith	Place 3
Bill Moses	Place 4

Appointed Officials

Linda Groomer	City Manager
Mary Jane Stevenson	Assistant City Manager
Greg Vick	Assistant City Manager
Cindee Peters	City Secretary
Jerry Murawski	City Engineer
Tom Bryson	Communications Director
Michael Spicer	Community Services Director
Norma Nichols	Economic Development Director
Don Moore	Equipment Services Director
Charles S. Cox	Finance Director
Kyle D. King	Fire Chief
Danita Barber	Library Director
Jeff Fuller	Parks and Recreation Director
Brian Dickerson	Human Resources Director
J. R. Fawcett	Police Chief
Mark Pavageaux	Public Works Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Farmers Branch,
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

INDEPENDENT AUDITORS' REPORT

To the Members of the City Council of
Farmers Branch, Texas:

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information, of the City of Farmers Branch, Texas (the "City"), as of and for the year ended September 30, 2005, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2005, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparisons for the General Fund and Landfill Closure/Post-Closure Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Required Supplemental Information—Texas Municipal Retirement System Analysis of Funding Progress are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the respective financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the City's management. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Deloitte & Touche LLP

January 11, 2006

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

As management of the City of Farmers Branch (City), we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Farmers Branch exceeded its liabilities at the close of the fiscal year ended September 30, 2005 by \$172,604,869 (net assets). Of this amount, \$25,613,825 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies as more fully described below.
- The City's total net assets increased by \$2,422,345. The net assets in the governmental activities increased \$2,510,867. The net assets in the business-type activities decreased \$88,522.
- At the close of the fiscal year ended September 30, 2005, the City's governmental funds reported combined ending fund balances of \$39,219,415. Approximately 78% of this total amount, \$30,656,113, is unreserved and available for use within the City's designation and policies. Designations for (1) construction \$12,183,734, (2) landfill closure \$5,458,922, (3) capital assets \$789,716, (4) special purposes \$928,734, and (5) accrued compensated absences \$188,381, total \$19,549,487 and represent almost 64% of the unreserved fund balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$12,084,723 or 30% of the total general fund expenditures and transfers out. The unreserved and undesignated fund balance for the general fund was \$11,106,626 or 28% of the total general fund expenditures and transfers out. This represents a \$541,511 increase from the prior fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

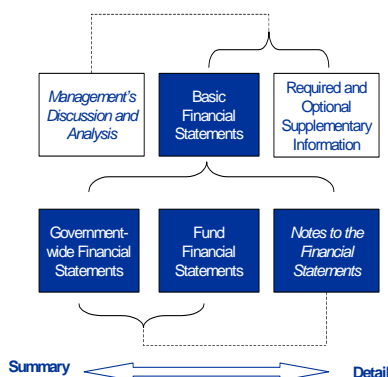
The statement of activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include water and sewer and public improvement district (PID).

The government-wide financial statements can be found in Exhibit A of this report.

Fund Financial Statements - A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories - governmental funds and proprietary funds.

Required Components of City of Farmers Branch's Annual Financial Report



CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains 20 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, landfill closure/postclosure fund, non-bond capital projects fund, DART capital projects fund, and TIF No. 1 District capital projects fund, which are considered to be major funds. Data from the other 15 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found in Exhibit B of this report.

Proprietary Funds - The City maintains two types of proprietary funds. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer and public improvement district operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its equipment services and workers' compensation funds. Because these services predominantly benefit governmental rather than business-type functions they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund is considered a major fund of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found in Exhibit C of this report.

Notes to Basic Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found in Exhibit D of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found in Exhibit E of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented following the required supplemental information on pensions. Combining and individual statements and schedules can be found in Exhibit F through Exhibit H of this report.

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

Major Features of City of Farmers Branch's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government	The activities of the City that are not proprietary, such as police, fire, and parks	Activities the City operates similar to private businesses: such as water/sewer utility
Required financial statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures, and changes in fund balances	*Statement of net assets *Statement of revenues, expenses, and changes in net assets *Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Farmers Branch, assets exceeded liabilities by \$172,604,869 as of September 30, 2005.

The largest portion of the City's net assets (78.95%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets (6.21%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (14.84%) may be used to meet the government's ongoing obligation to citizens and creditors.

Total assets of the governmental activities increased about 1.6% in fiscal year 2005. The increase in capital assets is due to TIF No. 1 District infrastructure improvements, construction of the Stars/Conference Center, a gas collection system at the landfill, street reconstruction, and a new parking lot at the Recreation Center. Total assets of the business-type activities decreased 2.0% despite dry weather conditions that improved charges for services revenue during fiscal year 2005. A 13.5% increase to water and sewer rates in fiscal year 2006 has been implemented to address the reduction in current assets this fiscal year and anticipated cost increases next year. The governmental activities noncurrent liabilities increased mainly due to the issuance of long-term debt for infrastructure construction in the TIF No. 1 District and the other liabilities decreased due to less unearned revenue for the DART fund and a reduction in accounts payable. The total liabilities for the business-type activities decreased as bond principal was paid.

CONDENSED STATEMENTS OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 45,012,911	\$ 47,498,186	\$ 21,412,320	\$ 21,465,024	\$ 66,425,231	\$ 68,963,210
Capital assets	121,316,991	116,281,145	39,599,986	40,811,545	160,916,977	157,092,690
Total assets	166,329,902	163,779,331	61,012,306	62,276,569	227,342,208	226,055,900
Noncurrent liabilities	45,416,961	43,535,089	3,703,811	4,159,461	49,120,772	47,694,550
Other liabilities	4,763,801	6,605,969	852,766	1,572,857	5,616,567	8,178,826
Total liabilities	50,180,762	50,141,058	4,556,577	5,732,318	54,737,339	55,873,376
Net assets:						
Invested in capital assets, net of related debt	93,781,812	90,059,354	42,492,826	42,594,070	136,274,638	132,653,424
Restricted	5,442,628	3,260,438	5,273,778	5,612,230	10,716,406	8,872,668
Unrestricted	16,924,700	20,318,481	8,689,125	8,337,951	25,613,825	28,656,432
Total net assets	\$ 116,149,140	\$ 113,638,273	\$ 56,455,729	\$ 56,544,251	\$ 172,604,869	\$ 170,182,524

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended September 30, 2005. Governmental activities increased the City's net assets by \$2,510,867. The largest change is a decrease of \$2,647,332 in culture and recreation expenses. This is due to prior year recognition of a capital loss for the demolition of the Word of Faith buildings. The largest decrease in revenues is \$1,060,307 in capital grants and contributions due to a decrease in the recognition of DART revenues as fewer capital outlays for street construction projects have been incurred during this fiscal year.

Business-type activities decreased the City's net assets by \$88,522. The largest change is an increase of \$1,129,240 in charges for services revenue due to dry weather conditions and a 4.5% rate increase.

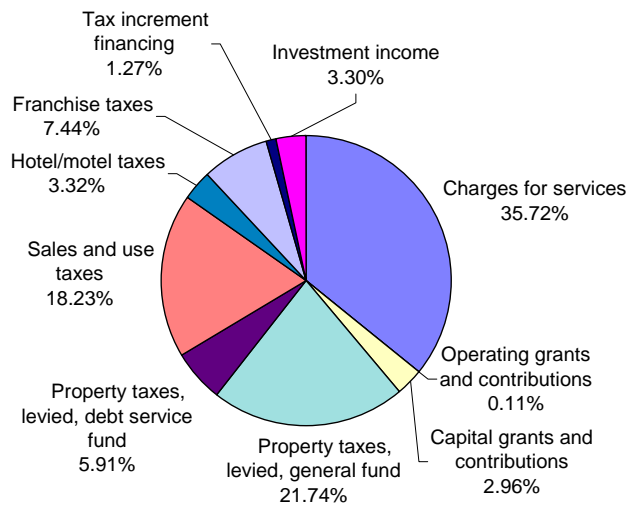
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 9,116,747	\$ 8,855,686	\$ 12,018,005	\$ 10,888,765	\$ 21,134,752	\$ 19,744,451
Operating grants and contributions	64,746	122,933			64,746	122,933
Capital grants and contributions	1,566,453	2,626,760	185,349	317,971	1,751,802	2,944,731
General revenues:						
Taxes:						
Property taxes, levied for general purposes	12,866,630	12,644,154			12,866,630	12,644,154
Property taxes, levied for debt service	3,496,761	3,348,361			3,496,761	3,348,361
Sales and use taxes	10,789,405	10,277,538			10,789,405	10,277,538
Hotel/motel taxes	1,965,693	1,786,530			1,965,693	1,786,530
Franchise taxes	4,401,914	4,577,748			4,401,914	4,577,748
Tax increment financing	753,444	851,694			753,444	851,694
Investment income	1,720,704	757,793	227,204	117,498	1,947,908	875,291
Total revenues	46,742,497	45,849,197	12,430,558	11,324,234	59,173,055	57,173,431
Expenses:						
General government	7,797,289	7,846,552			7,797,289	7,846,552
Public safety	15,536,770	14,785,034			15,536,770	14,785,034
Public works	10,497,625	11,152,223			10,497,625	11,152,223
Culture and recreation	11,041,720	13,689,052			11,041,720	13,689,052
Interest on long-term debt	1,240,816	978,999			1,240,816	978,999
Unallocated depreciation	144,510	141,602			144,510	141,602
Water and sewer			10,269,021	10,710,107	10,269,021	10,710,107
Public improvement district			222,959	215,513	222,959	215,513
Total expenses	46,258,730	48,593,462	10,491,980	10,925,620	56,750,710	59,519,082
Increases in net assets before transfers	483,767	(2,744,265)	1,938,578	398,614	2,422,345	(2,345,651)
Transfers	2,027,100	2,028,600	(2,027,100)	(2,028,600)		
Increase (decrease) in net assets	2,510,867	(715,665)	(88,522)	(1,629,986)	2,422,345	(2,345,651)
Net assets--beginning	113,638,273	114,353,938	56,544,251	58,174,237	170,182,524	172,528,175
Net assets--ending	\$ 116,149,140	\$ 113,638,273	\$ 56,455,729	\$ 56,544,251	\$ 172,604,869	\$ 170,182,524

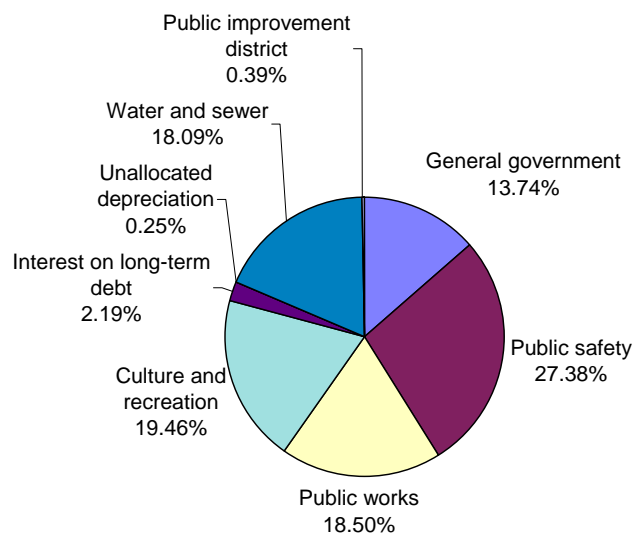
CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

Total Sources of Revenue



Total Expenses by Activity



CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$39,219,415. Twenty-two percent (22%) or \$8,563,302 of this total is reserved to indicate that it is not available for spending because it has already been committed (1) to pay for encumbrances \$5,540,304, (2) to provide for an advance to another fund \$200,000, (3) to pay for construction \$2,093,861, (4) to pay for debt service \$93,878, (5) to provide for inventory \$3,816, (6) to pay for law enforcement \$615,080, and (7) to provide for prepaid items \$16,363. Approximately 78% of the combined ending fund balance or \$30,656,113 constitutes unreserved fund balance. A portion (42%) of this unreserved fund balance, while not legally obligated, is planned for future capital projects.

In the general fund, the City budgeted for a decrease in fund balance of \$276,600. The budgeted decrease was part of the City's plan to temporarily use fund balance in order to offset revenue shortfalls resulting from an economic decline. The actual fund balance decrease for fiscal year 2005 was \$472,977. The unreserved, undesignated portion of general fund balance increased \$541,511 due to decreases in reserves and designations of fund balance.

Landfill closure/postclosure fund balance decreased \$108,143 due to construction of a gas collection system. Non-bond capital projects fund balance decreased by \$1,246,348 in fiscal year 2005 due to a reduction in general fund transfers. DART capital projects fund balance increased by \$33,581 due to investment income. The fund balance in the TIF No. 1 District capital projects fund increased \$2,825,619 due to developer advances.

Proprietary Funds - The City's enterprise fund is one component of proprietary funds. The enterprise fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the enterprise fund were \$8,714,705. The internal service funds (the other component of proprietary funds) report activities that provide supplies and services for the City's various functions. The City uses internal service funds to account for equipment services and the City's workers' compensation self-insurance program. Because both of these services primarily benefit governmental rather than business-type activities, they have been included with governmental activities in the government-wide financial statements.

General Fund Budgetary Highlights - The City Council approved revisions to the original appropriations. These revisions resulted in a decrease in expenditures of \$524,100 from the original budget in the general fund. The actual results on a budget basis were 1.0% less than the final budgeted appropriations. Public safety's GAAP and budget basis expenditures are greater than budget due to an approved purchase for a fire engine. Culture and recreation's GAAP and budget basis expenditures are greater than budget due to an approved renovation.

The City's final budgeted general fund revenue decreased 2.6% from the original budgeted amount. The actual revenue was 0.3% lower than the final budgeted revenue.

CAPITAL ASSETS

The City's investment in capital assets for its government-wide activities as of September 30, 2005, amounts to \$160,916,977 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

Completed Projects

- Stars/Conference Center facility construction for approximately \$10,569,000.
- Westside elevated tank construction for about \$2,860,000.
- Gas collection system at the landfill site for approximately \$1,055,000.
- Land additions in the transit development area for \$983,000.
- Recreation Center parking lot and improvements for approximately \$774,000.

Ongoing Projects

- Infrastructure improvements in TIF No. 1 District for about \$4,026,000.
- Street reconstruction on Josey Lane for approximately \$2,887,000.
- Utility improvements to water and sanitary sewer lines for about \$2,477,000.
- Construction of Pump Station #3 for about \$1,948,000.

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

Capital Assets at Year-End Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2005	2004	2005	2004	2005	2004
Land	\$ 39,275,402	\$ 38,802,850	\$ 603,364	\$ 603,364	\$ 39,878,766	\$ 39,406,214
Buildings	32,137,383	23,331,603	2,037,162	2,245,964	34,174,545	25,577,567
Equipment	7,335,627	6,112,708	488,438	555,997	7,824,065	6,668,705
Improvements	4,498,066	4,580,756	11,602	12,763	4,509,668	4,593,519
Infrastructure	27,796,254	27,533,928	33,982,433	32,678,573	61,778,687	60,212,501
Construction in progress	10,274,259	15,919,300	2,476,987	4,714,884	12,751,246	20,634,184
Total	<u>\$ 121,316,991</u>	<u>\$ 116,281,145</u>	<u>\$ 39,599,986</u>	<u>\$ 40,811,545</u>	<u>\$ 160,916,977</u>	<u>\$ 157,092,690</u>

Additional information on the City's capital assets can be found in the notes to basic financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$23,026,081. Of this amount, \$7,591,081 comprises bonded debt backed by the full faith and credit of the government, \$12,190,000 comprises debt to be repaid from hotel/motel tax revenues, lease payments from the Dallas Stars, and backed by the full faith and credit of the government, and \$3,245,000 represents bonds secured solely by public improvement assessments and excess water and sewer revenues. The developer advances of \$7,265,145 represent a loan to the City for capital project costs payable only from Tax Increment Financing District No. 1.

Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 7,591,081	\$ 10,582,657	\$	\$	\$ 7,591,081	\$ 10,582,657
Special revenue bonds	12,190,000	12,475,000			12,190,000	12,475,000
Assessment revenue bonds			3,245,000	3,734,392	3,245,000	3,734,392
Developer advances	7,265,145	3,415,888			7,265,145	3,415,888
Total	<u>\$ 27,046,226</u>	<u>\$ 26,473,545</u>	<u>\$ 3,245,000</u>	<u>\$ 3,734,392</u>	<u>\$ 30,291,226</u>	<u>\$ 30,207,937</u>

CITY OF FARMERS BRANCH, TEXAS

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2005
(Unaudited)

The City maintains favorable ratings from bond rating agencies. The ratings are as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General obligation bonds	Aa3	AA
Special revenue bonds	Aa3	AA
Assessment revenue bonds	A2	AA-

Additional information on the City's long term-debt can be found in the notes to basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the fiscal year 2006 budget, general fund revenues are budgeted to increase by 2.7% from the fiscal year 2005 budget year with general property taxes making up about 35% of general fund budgeted revenues. Sales tax receipts are projected to grow 3.5% from the fiscal 2005 results. Rates for youth program registration fees and water and sewer were increased for fiscal year 2006.

The City has made a concerted effort to limit appropriations. Any new programs, projects, or enhancements are offset by a corresponding cut in another area. Beginning in fiscal year 2003 and continuing through 2006, 37 fewer positions were budgeted without any layoffs. General fund expenditures and transfers out are budgeted to increase 2.9% in fiscal 2006. Increased costs include provision for a 2.5% across-the-board pay increase, market-based pay structure adjustments for police and fire employees, and health benefits.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Director of Finance, at P.O. Box 819010, Farmers Branch, Texas 75381-9010, or call (972) 247-3131, or e-mail charles.cox@farmersbranch.info.

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash, cash equivalents, and investments	\$ 39,885,703	\$ 7,618,233	\$ 47,503,936	\$ 35,224
Receivables, net of allowance for doubtful accounts	4,608,805	4,314,308	8,923,113	27
Internal balances	25,580	(25,580)		
Inventory of materials and supplies	95,696		95,696	
Deposits	56,000		56,000	
Prepaid items	16,363	96,119	112,482	
Restricted assets:				
Cash and cash equivalents		51,687	51,687	
Investments		3,033,882	3,033,882	
Investment in joint venture		6,268,040	6,268,040	
Deferred charges	324,764	55,631	380,395	
Capital assets:				
Nondepreciable	49,549,661	3,080,351	52,630,012	
Depreciable, net of accumulated depreciation	71,767,330	36,519,635	108,286,965	
Capital assets, net of accumulated depreciation	121,316,991	39,599,986	160,916,977	
Total assets	166,329,902	61,012,306	227,342,208	35,251
LIABILITIES				
Accounts payable and accrued liabilities	2,391,272	654,717	3,045,989	
Accrued interest payable	1,165,985		1,165,985	
Customer deposits	324,694	122,717	447,411	
Unearned revenue	538,793		538,793	
Retainage payable	343,057	75,332	418,389	
Noncurrent liabilities:				
Revenue bonds payable - payable from restricted assets (due within one year)		500,000	500,000	
Accrued interest payable - payable from restricted assets (due within one year)		40,835	40,835	
Arbitrage liability		9,294	9,294	
Due within one year	4,029,106	30,777	4,059,883	
Due in more than one year	41,387,855	3,122,905	44,510,760	
Total liabilities	50,180,762	4,556,577	54,737,339	
NET ASSETS				
Invested in capital assets, net of related debt	93,781,812	42,492,826	136,274,638	
Restricted for:				
Debt service		2,544,734	2,544,734	
Capital projects	5,442,628	2,729,044	8,171,672	
Unrestricted	16,924,700	8,689,125	25,613,825	35,251
Total net assets	\$ 116,149,140	\$ 56,455,729	\$ 172,604,869	\$ 35,251

The accompanying notes are an integral part of the financial statements.

CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating	Capital
		Services	Grants and	Grants and
			Contributions	Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,797,289	\$ 855,206	\$ 6,457	\$
Public safety	15,536,770	3,967,328	30,210	101,601
Public works	10,497,625	3,550,264		1,312,843
Culture and recreation	11,041,720	743,949	28,079	152,009
Interest on long-term debt	1,240,816			
Unallocated depreciation	144,510			
Total governmental activities	46,258,730	9,116,747	64,746	1,566,453
Business-type activities:				
Water and sewer	10,269,021	12,018,005		
Public improvement district	222,959			185,349
Total business-type activities	10,491,980	12,018,005		185,349
Total primary government	\$ 56,750,710	\$ 21,134,752	\$ 64,746	\$ 1,751,802
Component unit:				
Industrial development corporation	\$ 2,109	\$	\$	\$
Total component unit	\$ 2,109	\$	\$	\$

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales and use taxes

Hotel/motel taxes

Franchise taxes

Tax increment financing

Investment income

Transfers

Total general revenues and transfers

Change in net assets

Net assets--beginning

Net assets--ending

The accompanying notes are an integral part of the financial statements.

Exhibit A-2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (6,935,626)	\$	\$ (6,935,626)	
(11,437,631)		(11,437,631)	
(5,634,518)		(5,634,518)	
(10,117,683)		(10,117,683)	
(1,240,816)		(1,240,816)	
(144,510)		(144,510)	
<u>(35,510,784)</u>		<u>(35,510,784)</u>	
	1,748,984	1,748,984	
	(37,610)	(37,610)	
	<u>1,711,374</u>	<u>1,711,374</u>	
<u>\$ (35,510,784)</u>	<u>\$ 1,711,374</u>	<u>\$ (33,799,410)</u>	
		\$ (2,109)	
		<u>\$ (2,109)</u>	
12,866,630		12,866,630	
3,496,761		3,496,761	
10,789,405		10,789,405	
1,965,693		1,965,693	
4,401,914		4,401,914	
753,444		753,444	
1,720,704	227,204	1,947,908	588
2,027,100	(2,027,100)		
<u>38,021,651</u>	<u>(1,799,896)</u>	<u>36,221,755</u>	<u>588</u>
2,510,867	(88,522)	2,422,345	(1,521)
113,638,273	56,544,251	170,182,524	36,772
<u>\$ 116,149,140</u>	<u>\$ 56,455,729</u>	<u>\$ 172,604,869</u>	<u>\$ 35,251</u>

CITY OF FARMERS BRANCH, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	DART Capital Projects	TIF No. 1 District Capital Projects
ASSETS					
Cash, cash equivalents, and investments	\$ 11,944,988	\$ 5,410,001	\$ 12,214,868	\$ 1,005,182	\$ 4,823,237
Receivables, net	3,735,351	60,597	8,036	39,130	17,217
Accrued interest and other	95,546	37,973	87,572	9,789	16,997
Inventories					
Advances due from other funds			200,000		
Prepaid items	16,363				
Total assets	<u>\$ 15,792,248</u>	<u>\$ 5,508,571</u>	<u>\$ 12,510,476</u>	<u>\$ 1,054,101</u>	<u>\$ 4,857,451</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,704,167	22,990	\$ 38,781	\$ 24,428	\$ 425,739
Customer deposit	24,694				
Deferred revenue	909,859			451,454	17,217
Advances due to other funds					
Retainage payable	25,226		10,715	152,462	60,629
Total liabilities	<u>2,663,946</u>	<u>22,990</u>	<u>49,496</u>	<u>628,344</u>	<u>503,585</u>
Fund balances:					
Reserved for encumbrances	1,027,216	26,659	797,740		3,129,560
Reserved for advances			200,000		
Reserved for construction				425,757	1,224,306
Reserved for debt service					
Reserved for inventory					
Reserved for law enforcement					
Reserved for prepaid items	16,363				
Unreserved, reported in:					
General fund:					
Designated for accrued compensated absences	188,381				
Designated for capital assets	789,716				
Undesignated	11,106,626				
Special revenue funds:					
Designated for landfill closure/postclosure		5,458,922			
Designated for special purposes					
Capital project funds:					
Designated for construction			11,463,240		
Total fund balances	<u>13,128,302</u>	<u>5,485,581</u>	<u>12,460,980</u>	<u>425,757</u>	<u>4,353,866</u>
Total liabilities and fund balances	<u>\$ 15,792,248</u>	<u>\$ 5,508,571</u>	<u>\$ 12,510,476</u>	<u>\$ 1,054,101</u>	<u>\$ 4,857,451</u>

The accompanying notes are an integral part of the financial statements.

Exhibit B-1

Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,812,091	\$ 39,210,367
474,473	4,334,804
26,124	274,001
3,816	3,816
	200,000
	16,363
<u>\$ 4,316,504</u>	<u>\$ 44,039,351</u>
\$ 68,588	\$ 2,284,693
300,000	324,694
288,962	1,667,492
200,000	200,000
94,025	343,057
<u>951,575</u>	<u>4,819,936</u>
559,129	5,540,304
	200,000
443,798	2,093,861
93,878	93,878
3,816	3,816
615,080	615,080
	16,363
	188,381
	789,716
	11,106,626
	5,458,922
928,734	928,734
720,494	12,183,734
<u>3,364,929</u>	<u>39,219,415</u>
<u>\$ 4,316,504</u>	<u>\$ 44,039,351</u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

Total Fund Balances - Total Governmental Funds: \$ 39,219,415

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds balance sheet (net of internal service fund assets of \$200,955). 121,116,036

Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds. 1,128,699

Internal service funds are used by management to charge the cost of certain activities, such as fleet management and workers' compensation, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets (net of amount allocated to business-type activities of \$25,580). 447,710

Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. Also, during the year the City issued new debt. The amount borrowed is received in the governmental funds and increases fund balance.

Bonds payable and developer advances	\$ (27,046,226)	
Less deferred loss from refunding and discount	105,494	
Less deferred charges	324,764	
Accrued interest	(1,165,985)	
Compensated absences (net of internal service fund \$125,442)	(5,757,883)	
Landfill liability	(12,222,884)	
Combined adjustment		(45,762,720)
Net assets of governmental activities		<u>\$ 116,149,140</u>

The accompanying notes are an integral part of the financial statements.

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CITY OF FARMERS BRANCH, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	DART Capital Projects	TIF No. 1 District Capital Projects
REVENUES					
Property taxes	\$ 13,044,726	\$	\$	\$	\$
Sales and use taxes	10,789,405				
Hotel/motel taxes					
Franchise taxes	4,401,914				
Tax increment financing					726,301
Licenses and permits	702,623				
Charges for services	4,689,222	785,386			
Fines and forfeitures	2,681,631				
Investment income	565,953	130,262	300,404	33,581	58,305
Intergovernmental			142,406	1,112,843	
Miscellaneous	106,459		200,000		
Total revenues	36,981,933	915,648	642,810	1,146,424	784,606
EXPENDITURES					
Current:					
General government	7,568,695				
Public safety	16,029,225				
Public works	6,685,000				
Culture and recreation	9,025,479				
Debt service:					
Principal retirement					
Interest and fiscal agent charges					
Capital outlay		1,023,791	2,522,658	1,112,843	1,760,502
Total expenditures	39,308,399	1,023,791	2,522,658	1,112,843	1,760,502
Excess (deficiency) of revenues over (under) expenditures	(2,326,466)	(108,143)	(1,879,848)	33,581	(975,896)
OTHER FINANCING SOURCES (USES)					
Transfers in	2,332,842		633,500		
Transfers out	(633,500)				(47,742)
Developer advances					3,849,257
Sale of capital assets/insurance recoveries	154,147				
Total other financing sources (uses)	1,853,489		633,500		3,801,515
Net change in fund balances	(472,977)	(108,143)	(1,246,348)	33,581	2,825,619
Fund balances--beginning	13,601,279	5,593,724	13,707,328	392,176	1,528,247
Fund balances--ending	\$ 13,128,302	\$ 5,485,581	\$ 12,460,980	\$ 425,757	\$ 4,353,866

The accompanying notes are an integral part of the financial statements.

Exhibit B-3

Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,238,319	\$ 16,283,045
	10,789,405
1,965,693	1,965,693
	4,401,914
13,494	739,795
	702,623
	5,474,608
134,718	2,816,349
604,975	1,693,480
139,924	1,395,173
49,059	355,518
6,146,182	46,617,603
36,273	7,604,968
315,727	16,344,952
	6,685,000
1,118,252	10,143,731
3,220,000	3,220,000
961,455	961,455
1,777,581	8,197,375
7,429,288	53,157,481
(1,283,106)	(6,539,878)
1,265,500	4,231,842
(1,523,500)	(2,204,742)
	3,849,257
	154,147
(258,000)	6,030,504
(1,541,106)	(509,374)
4,906,035	39,728,789
\$ 3,364,929	\$ 39,219,415

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds \$ (509,374)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$9,572,220) exceeded depreciation (\$4,163,203) in the current period. 5,409,017

The net effect of the various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets. (339,160)

Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the increase/(decrease) during the current year in deferred revenue that is earned, but not collected.

Property tax revenue	\$ 80,346	
Tax increment financing	13,649	
Ambulance revenue	4,159	
Net adjustment		98,154

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issued:

Developer advances	\$ (3,849,257)
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Repayments:

To bond holders	3,220,000	
Net adjustment		(629,257)

Some expenses reported in the government-wide statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	\$ (207,114)	
Difference in debt-related amortizations	(17,678)	
Accrued interest on long-term debt	(308,793)	
Landfill liability	(1,142,317)	
Net adjustment		(1,675,902)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management and workers' compensation, to individual funds. The net income of the internal service funds is reported with governmental activities (net of amount allocated to business-type activities of \$29,775). 157,389

Change in net assets of governmental activities:	\$ 2,510,867
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	2005					Variance with
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Final Budget -
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Positive (Negative)
REVENUES						
Property taxes	13,149,300	13,100,000	\$ 13,044,726	\$	\$ 13,044,726	\$ (55,274)
Sales and use tax	11,137,000	10,837,000	10,789,405		10,789,405	(47,595)
Franchise taxes	4,642,000	4,469,000	4,401,914		4,401,914	(67,086)
Licenses and permits	648,400	739,900	702,623		702,623	(37,277)
Charges for services	4,739,700	4,656,000	4,689,222		4,689,222	33,222
Fines and forfeitures	2,832,000	2,507,000	2,681,631		2,681,631	174,631
Investment income	620,500	655,500	565,953		565,953	(89,547)
Miscellaneous	333,000	136,800	106,459		106,459	(30,341)
Total revenues	38,101,900	37,101,200	36,981,933		36,981,933	(119,267)
EXPENDITURES						
Current:						
General government	8,152,100	7,860,400	7,568,695	(8,097)	7,560,598	299,802
Public safety	15,623,100	15,394,100	16,029,225	(520,605)	15,508,620	(114,520)
Public works	6,892,600	6,858,900	6,685,000	91,063	6,776,063	82,837
Culture and recreation	9,135,700	9,166,000	9,025,479	21,339	9,046,818	119,182
Total expenditures	39,803,500	39,279,400	39,308,399	(416,300)	38,892,099	387,301
Excess (deficiency) of revenues over (under) expenditures	(1,701,600)	(2,178,200)	(2,326,466)	416,300	(1,910,166)	268,034
OTHER FINANCING SOURCES (USES)						
Transfers in	2,335,100	2,335,100	2,332,842		2,332,842	(2,258)
Transfers out	(633,500)	(633,500)	(633,500)		(633,500)	
Sale of capital assets/insurance recoveries	200,000	200,000	154,147		154,147	(45,853)
Total other financing uses	1,901,600	1,901,600	1,853,489		1,853,489	(48,111)
Net change in fund balance	200,000	(276,600)	(472,977)	416,300	(56,677)	219,923
Fund balances--beginning	12,157,763	12,157,763	13,601,279	(1,443,516)	12,157,763	
Fund balances--ending	\$ 12,357,763	\$ 11,881,163	\$ 13,128,302	\$ (1,027,216)	\$ 12,101,086	\$ 219,923

Explanation of differences:

Expenditures of amounts encumbered at September 30, 2004	\$ 1,443,516
Reserved (GAAP) for encumbrances at September 30, 2005, but recognized as expenditures for budget purposes	(1,027,216)
Net decrease in fund balance - GAAP to budget	\$ 416,300

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - LANDFILL CLOSURE/POSTCLOSURE FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	2005					Variance with
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Final Budget -
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Positive (Negative)
REVENUES						
Charges for services	\$ 850,000	\$ 850,000	\$ 785,386	\$	\$ 785,386	\$ (64,614)
Investment income			130,262		130,262	130,262
Total revenues	850,000	850,000	915,648		915,648	65,648
EXPENDITURES						
Capital Outlay	1,000,000	1,250,000	1,023,791	19,259	1,043,050	206,950
Total expenditures	1,000,000	1,250,000	1,023,791	19,259	1,043,050	206,950
Excess of revenues over expenditures	(150,000)	(400,000)	(108,143)	(19,259)	(127,402)	272,598
Fund balances--beginning	5,586,324	5,586,324	5,593,724	(7,400)	5,586,324	
Fund balances--ending	\$ 5,436,324	\$ 5,186,324	\$ 5,485,581	\$ (26,659)	\$ 5,458,922	\$ 272,598
Explanation of differences:						
Expenditures of amounts encumbered at September 30, 2004					\$ 7,400	
Reserved (GAAP) for encumbrances at September 30, 2005, but recognized as expenditures for budget purposes					(26,659)	
Net decrease in fund balance - GAAP to budget					\$ (19,259)	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2005

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
ASSETS		
Current assets:		
Cash, cash equivalents, and investments	\$ 7,618,233	\$ 675,336
Receivables, net	2,412,825	
Accrued interest and other	66,912	
Inventories and prepayments	96,119	91,880
Deposits		56,000
Total current assets	<u>10,194,089</u>	<u>823,216</u>
Noncurrent assets:		
Restricted cash and cash equivalents	51,687	
Restricted investments	3,033,882	
Receivables, net	1,834,571	
Investment in joint venture, net of accumulated depreciation	6,268,040	
Deferred charges	55,631	
Capital assets:		
Nondepreciable	3,080,351	8,170
Depreciable, net of accumulated depreciation	36,519,635	192,785
Total noncurrent assets	<u>50,843,797</u>	<u>200,955</u>
Total assets	<u>61,037,886</u>	<u>1,024,171</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	654,717	106,579
Retainage payable	75,332	
Claims payable		144,308
Compensated absences	30,777	48,922
Deposits	122,717	
Total current liabilities	<u>883,543</u>	<u>299,809</u>
Noncurrent liabilities:		
Revenue bonds payable - payable from restricted assets (due within one year)	500,000	
Accrued interest payable - payable from restricted assets (due within one year)	40,835	
Arbitrage liability	9,294	
Claims payable		225,712
Compensated absences	423,844	76,520
Long-term debt due in more than one year	2,699,061	
Total noncurrent liabilities	<u>3,673,034</u>	<u>302,232</u>
Total liabilities	<u>4,556,577</u>	<u>602,041</u>
NET ASSETS		
Invested in capital assets, net of related debt	42,492,826	200,955
Restricted for:		
Debt service	2,544,734	
Capital projects	2,729,044	
Unrestricted	<u>8,714,705</u>	<u>221,175</u>
Total net assets	<u>\$ 56,481,309</u>	<u>\$ 422,130</u>
Reconciliation to government-wide statement of net assets:		
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund	(25,580)	
Net assets of business-type activities	<u>\$ 56,455,729</u>	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
Operating revenues		
Charges for services	\$ 12,010,694	\$ 1,655,363
Contributions and miscellaneous	7,311	513,278
Total operating revenues	12,018,005	2,168,641
Operating expenses		
Personal services	1,880,353	696,797
Materials and supplies	132,663	844,543
Maintenance and utilities	617,381	114,023
Purchase of water	3,769,111	
Sewage treatment	2,028,647	
Insurance claims and expenses		292,103
Depreciation	1,905,457	34,011
Total operating expenses	10,333,612	1,981,477
Operating income	1,684,393	187,164
Nonoperating revenues (expenses)		
Investment income	227,204	
Assessment interest income	185,349	
Loss of the joint venture	(67,132)	
Interest expense and fiscal agent charges	(121,011)	
Total nonoperating revenue (expenses)	224,410	
Income before transfers	1,908,803	187,164
Transfers out	(2,027,100)	
Change in net assets	(118,297)	187,164
Net assets--beginning	56,599,606	234,966
Net assets--ending	\$ 56,481,309	\$ 422,130
Reconciliation to government-wide statement of net assets:		
Change in net assets	\$ (118,297)	
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund	29,775	
Change in net assets of business-type activities	\$ (88,522)	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 11,495,340	\$
Receipts from interfund services provided		2,197,641
Payments to suppliers	(7,075,848)	(873,166)
Payments to employees	(1,748,489)	(685,411)
Payments for loss claims		(367,391)
Payments for interfund services used	(267,616)	
Net cash provided by operating activities	2,403,387	271,673
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(2,027,100)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Deferred charges	10,944	
Special assessments	620,602	
Interest on special assessments	185,349	
Acquisition and construction of capital assets	(693,898)	
Principal paid on revenue bond maturities	(490,000)	
Interest paid on revenue bonds	(118,099)	
Net cash used by capital and related financing activities	(485,102)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	295,440	
Purchase of investments, restricted	(208,853)	
Investment income	201,531	
Net cash provided by investing activities	288,118	
Net increase in cash and cash equivalents	179,303	271,673
Cash and cash equivalents - beginning of year		403,663
Cash and cash equivalents - end of year	\$ 179,303	\$ 675,336
Cash and cash equivalents - end of year	\$ 179,303	\$ 675,336
Investments	7,490,617	
Restricted investments	3,033,882	
Cash, cash equivalents, and investments - end of year	\$ 10,703,802	\$ 675,336
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Loss of the joint venture	\$ (67,132)	

The accompanying notes are an integral part of the financial statements.

(continued)

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Business-type Activities -- Enterprise Fund	Governmental Activities -- Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,684,393	\$ 187,164
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,905,457	34,011
Change in assets and liabilities:		
Increase in receivables	(533,347)	
Decrease in inventory of materials and supplies		39,458
Decrease in deposits		29,000
Decrease in prepaid items	37,865	
Decrease in accounts payable	(769,002)	
Increase in accrued liabilities		49,424
Increase in retainage payable	38,229	
Decrease in claims payable		(75,288)
Increase in deposits payable	10,682	
Increase in accrued compensated absences	29,110	7,904
Net cash provided by operating activities	<u>\$ 2,403,387</u>	<u>\$ 271,673</u>

The accompanying notes are an integral part of the financial statements.

(concluded)

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Farmers Branch, Texas (the "City") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a five-member council. The City was incorporated in 1946 under the Constitution of the State of Texas (Home Rule Amendment). As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units. Because of the closeness of their relationship with the primary government (the City), some component units are blended as though they are part of the primary government; most component units are discretely presented. The City has no blended component units; however, discretely presented component units and the joint venture, which all have a September 30 year-end, are as follows:

Discretely Presented Component Units

The Farmers Branch Housing Finance Corporation ("Housing Corporation") was created in 1993 for the special purpose of providing a financing mechanism for the development and ownership of residential and multi-family housing initiatives. The members of the Housing Corporation Board are appointed by the City Council. Thus, the Housing Corporation is a part of the City's reporting entity. The Housing Corporation has placed all mortgage loans and pledged related collateral and credit enhancements with a trustee in an irrevocable trust. The conduit bonds, which do not constitute indebtedness of the City nor the Housing Corporation, are secured solely by the revenues received from the organizations on whose behalf they were issued and the City assumes no responsibility for the operating expenses of the Housing Corporation. Accordingly, the conduit bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2005, there were two series of Single Family Mortgage Revenue Bonds outstanding, Series 1996 and Series 1999, with principal amounts payable of \$200,000 and \$137,119, respectively. The Housing Corporation had no revenues or expenditures and has no assets, liabilities or fund balance as of September 30, 2005; therefore, no financial statements have been presented.

The Farmers Branch Industrial Development Corporation ("Development Corporation") was created for the special purpose of promoting and developing commercial, industrial, and manufacturing enterprises and encouraging employment within the boundaries of the City. The members of the Development Corporation Board are appointed by the City Council. The Development Corporation's financial activities are discretely presented in the City's financial statements as a governmental fund. The Development Corporation is authorized to issue industrial development revenue bonds after approval by the City Council. The Development Corporation has issued conduit bonds that have fully matured in previous years. Complete financial statements of the Development Corporation can be obtained from the City's finance department.

Joint Venture

The North Dallas County Water Supply Corporation ("NDCWSC") is a joint venture between the City and the Town of Addison (the "Town") to design, construct, operate, and maintain a joint sanitary sewer interceptor and conventional sewer lines. The NDCWSC, a public instrumentality and nonprofit water supply corporation, was created for that purpose. Upon dissolution of the NDCWSC, the net assets will be shared by the City and Town in the proportions stated in an inter-local agreement. The affairs of the NDCWSC are managed by a six-person board of directors appointed by the governing bodies of the City and the Town.

The City and the Town are each obligated to fund construction of the sanitary sewer interceptor in the proportions stated in the inter-local agreement. The City has financed its portion of construction funds through the issuance and sale of assessment revenue bonds and a transfer from previously issued sewer bonds. The City's net investment and its share of the operating results of the NDCWSC are reported in the City's enterprise fund. The City's equity interest in the NDCWSC was \$6,268,040 at September 30, 2005. Complete financial statements for the NDCWSC can be obtained from the City's finance department.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

B. Basic Financial Statements

The basic financial statements include both government-wide financial statements (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured and basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the time of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property, franchise, sales and hotel occupancy taxes and investment income (including unrealized gains and losses) are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *general fund* is the primary operating fund of the City. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The *landfill closure/postclosure fund* is used to account for future landfill costs.

The *non-bond capital projects fund* is used to account for the acquisition and construction of major capital facilities (other than those financed by general obligation bonds or proprietary fund types).

The *DART capital projects fund* accounts for the construction and financing of transit related improvements and is funded by the Dallas Area Rapid Transit Local Assistance Program.

The *TIF No. 1 District capital projects fund* accounts for infrastructure construction in the Mercer Crossing tax increment financing district and is funded from developer contributions and advances and property tax payments.

The City reports the following major proprietary fund:

The *enterprise fund* is used to account for water and sewer service operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided the periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

The City reports the following internal service funds:

The *internal service funds* are used to account for equipment services and the City's workers' compensation self-insurance program for the departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund and the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1) Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

To maximize investment opportunities, all funds (excluding the debt service fund and the internal service funds) participate in a pooling of cash and investment income. Each fund may liquidate its equity in the pool on demand. Investments are recorded at fair value, except for investments with maturity of one year or less from date of purchase, which are stated at amortized cost. Fair value is based on quoted market prices.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5% of outstanding property taxes at September 30, 2005.

The City's property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year.

3) Inventories and Prepaid Items

Inventories are stated at the lower of average cost or market for the internal service funds and at average cost for the special revenue funds. Inventories are recorded as assets when purchased and charged to operations when used.

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4) Capital Assets

Capital assets, which include land, buildings, equipment, improvements, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), purchased or acquired, are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed. Insurance recoveries of \$52,040 were received for the year ended September 30, 2005. They are included as an other financing source in the general fund. A capitalization threshold of \$5,000 is used for all capital assets. Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings	30 - 50	years
Equipment	5 - 30	years
Improvements	20	years
Infrastructure	15 - 62.5	years

5) Compensated Absences

The City's employees earn vacation leave (up to a maximum of 192 hours per year) based on days employed. Upon retirement or termination, payment of accumulated vacation may not exceed that which can be accumulated within two years. Unused sick leave, based on days employed, may be accumulated up to certain limits. Upon retirement or termination, a maximum of 720 hours of sick pay is paid for 40 hours per week employees or 1,080 hours for 56 hours per week employees hired before October 1, 1992. Upon retirement or termination, employees hired on October 1, 1992 or later with five years or less of service will be paid a maximum of 120 hours of sick pay for 40 hours per week employees or 180 hours for 56 hours per week employees. Upon retirement or termination, employees hired on October 1, 1992 or later with more than five years of service will be paid a maximum of 240 hours of sick pay for 40 hours per week employees or 360 hours for 56 hours per week employees.

6) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

As of September 30, 2005, the City reserved a portion of general fund balance for encumbrances and prepaid items, a portion of special revenue fund balance for encumbrances, inventory, and law enforcement, the entire debt service fund balance for debt service, and a portion of the capital projects fund balance for encumbrances, advances, and construction.

The City designated a portion of the general fund's unreserved fund balance for accrued compensated absences and capital assets. Designations for special purposes of the special revenue fund unreserved fund balance are segregated so as to be utilized in accordance with state law or other restricted purpose as applied to hotel/motel tax revenue, landfill closure, grants, and contributions that are designated to finance particular functions or activities of the City. Designations of the capital projects fund balance are not legally required segregations, but are segregated for construction.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budget Policy – By August 1 of each fiscal year, the City Manager submits an annual budget to the City Council. Annual operating budgets are prepared on a budgetary basis for all governmental funds, whereby year-end encumbrances are recognized as expenditures in the current year budget. Budgetary data for the capital projects funds has not been presented in these statements as these funds are budgeted over the life of the respective project and not on an annual basis. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year on October 1. Once the budget is approved, the City Manager is authorized to transfer unencumbered appropriations within each departmental division's summary budget category as itemized in the adopted budget. City Council approval is necessary for transfers of unencumbered appropriations between departments, functions and funds. Special revenue funds are budgeted at the function level.

Budgetary Data – Budget amounts presented in the general fund's and landfill closure/postclosure fund's "Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual" reflect the original budget and the amended budget (which has been adjusted for legally authorized revisions to the annual budget during the year). Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

During the year certain budget amendments were required. Budgeted general fund revenues were reduced by a total of \$1,000,700. Fines and forfeitures was reduced \$325,000 due to fewer citations anticipated and more time credit applied as payment. Sales tax revenue was reduced \$300,000 as sales fell short of original expectations, miscellaneous revenue was decreased \$196,200 due to the reclassification of proceeds from

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

insurance settlements, and franchise taxes were reduced \$173,000 due to shortfalls in telephone and electricity franchise taxes. Budgeted general fund expenditures were reduced \$524,100. The main reason for this reduction was due to vacancies in positions in police patrol, police communications, and street maintenance. Budgeted landfill closure/postclosure fund expenditures were increased \$250,000 for anticipated gas collection system cost increases.

B. Excess of Expenditures Over Appropriations

For the year ended September 30, 2005, expenditures in the following departments or functions exceeded appropriations by the following amounts:

General Fund - Public Safety (Fire)	\$	431,438
General Fund - Culture and Recreation (Library)		97,758

The excess over appropriations for the fire department was due to the purchase of a fire engine. The excess for the library was due to a major renovation. The budget for large capital asset purchases is allocated over several years. This creates a negative variance in the year of purchase. Available fund balance was sufficient to provide for the excess expenditures.

C. Deficit Fund Equity

The deficit of \$18,188 in the TIF No. 2 District capital projects fund is due to the use of the \$200,000 advance from the non-bond capital projects fund for construction prior to receipt of tax increment financing revenue.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year-end, the carrying amount of the City's deposits was (\$1,344,647) and the bank balance was \$129,232. The bank balance was completely covered by federal depository insurance or by collateral held by the City's agent in the City's name. At year-end, the carrying amount of the Development Corporation's deposits was \$35,224 and the bank balance was \$35,224. The bank balance was completely covered by federal depository insurance.

State statutes, City bond ordinances, and City resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, direct obligations of Texas and its agencies and instrumentalities, obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating, insured or collateralized certificates of deposit, fully collateralized repurchase agreements, and government pools.

The City elects to exclude investments with maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. As of September 30, 2005 the City had the following investments:

Description	Reported Amount	Fair Value	Weighted Average Maturity (in days)
Repurchase Agreements	\$ 2,983,937	\$ 2,983,937	1
U.S. Treasury Securities	9,196,097	9,193,050	167
U.S. Agency Securities	39,754,118	39,748,077	367
Total Investments	<u>\$ 51,934,152</u>	<u>\$ 51,925,064</u>	
Portfolio Weighted Average Maturity			<u>320</u>

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to eighteen months (548 days).

Credit Risk. The City's investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's Investors Service and AAA by Standard and Poor's except for one Fannie Mae note with a reported value of \$4,130,750 that was rated Aa2 by Moody's Investors Service and AA- by Standard and Poor's.

Concentration of Credit Risk. The City places no limit on the amount the City may invest in any one issuer. However, the City's investment policy calls for portfolio diversification by avoiding over-concentration in a specific maturity sector or specific instruments. The City's portfolio is 28.13% invested in Fannie Mae notes, 26.66% invested in Federal Home Loan Bank, 10.09% invested in Freddie Mac notes, and 7.59% invested in

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

Federal Farm Credit Bank notes as of September 30, 2005. The remainder (27.53%) of the City's investments is invested in U.S. government issues or U.S. guaranteed obligations.

Cash and cash equivalents are reported at cost. Total deposits and investments are presented on the Statement of Net Assets as:

	Primary Government	Component Unit	Reporting Entity
Cash, cash equivalents, and investments	\$ 47,503,936	\$ 35,224	\$ 47,539,160
Restricted assets:			
Cash and cash equivalents	51,687		51,687
Investments	3,033,882		3,033,882
Total cash, cash equivalents, and investments	\$ 50,589,505	\$ 35,224	\$ 50,624,729

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Landfill Closure/ Postclosure	Non-Bond Capital Projects	DART Capital Projects	TIF No. 1 District Capital Projects	Enterprise	Nonmajor Governmental	Total
Receivables:								
Property tax	\$ 876,612	\$	\$	\$	\$	\$	273,089	\$ 1,149,701
Tax increment financing					17,217		3,455	20,672
Other taxes	1,900,998						210,634	2,111,632
Accounts	2,522,492	60,597				708,542	949	3,292,580
Unbilled accounts						1,359,308		1,359,308
Assessments			13,518			2,211,477		2,224,995
Intergovernmental			8,036	39,130				47,166
Gross receivables	5,300,102	60,597	21,554	39,130	17,217	4,279,327	488,127	10,206,054
Less: Allowance for uncollectibles	(1,564,751)		(13,518)			(31,931)	(13,654)	(1,623,854)
Net total receivables	\$ 3,735,351	\$ 60,597	\$ 8,036	\$ 39,130	\$ 17,217	\$ 4,247,396	\$ 474,473	\$ 8,582,200

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

C. Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 38,802,850	\$ 43,740	\$ (43,740)	\$ 39,275,402
Construction in progress	15,919,300	7,406,889		10,274,259
Total capital assets, not being depreciated	54,722,150	7,450,629	(43,740)	49,549,661
Capital assets, being depreciated				
Improvements	7,070,335			7,327,900
Buildings	27,561,973	159,350		37,103,442
Equipment	16,052,273	2,033,205	(957,142)	17,930,142
Infrastructure	75,281,766			77,419,654
Total capital assets, being depreciated	125,966,347	2,192,555	(957,142)	139,781,138
Less accumulated depreciation for:				
Improvements	(2,489,579)	(340,255)		(2,829,834)
Buildings	(4,230,370)	(735,689)		(4,966,059)
Equipment	(9,939,565)	(1,245,708)	590,758	(10,594,515)
Infrastructure	(47,747,838)	(1,875,562)		(49,623,400)
Total accumulated depreciation	(64,407,352)	(4,197,214)	590,758	(68,013,808)
Total capital assets, being depreciated, net	61,558,995	(2,004,659)	(366,384)	71,767,330
Governmental activities capital assets, net	\$ 116,281,145	\$ 5,445,970	\$ (410,124)	\$ 121,316,991
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 603,364	\$	\$	\$ 603,364
Construction in progress	4,714,884	584,071		2,476,987
Total capital assets, not being depreciated	5,318,248	584,071		3,080,351
Capital assets, being depreciated:				
Improvements	23,206			23,206
Buildings	6,753,769			6,753,769
Equipment	2,154,348	71,889	(13,990)	2,212,247
Infrastructure	63,537,682	37,938		66,397,588
Total capital assets, being depreciated	72,469,005	109,827	(13,990)	75,386,810
Less accumulated depreciation for:				
Improvements	(10,443)	(1,161)		(11,604)
Buildings	(4,507,805)	(208,802)		(4,716,607)
Equipment	(1,598,351)	(139,448)	13,990	(1,723,809)
Infrastructure	(30,859,109)	(1,556,046)		(32,415,155)
Total accumulated depreciation	(36,975,708)	(1,905,457)	13,990	(38,867,175)
Total capital assets, being depreciated, net	35,493,297	(1,795,630)		36,519,635
Business-type activities capital assets, net	\$ 40,811,545	\$ (1,211,559)	\$	\$ 39,599,986

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

The preceding schedule includes internal service assets in the governmental activities. Internal service fund depreciation expense is allocated to the primary government based on each function's or program's usage of its services.

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 125,511
Public safety	657,543
Public works, which includes the depreciation of general infrastructure assets	2,193,320
Culture and recreation	1,076,330
Unallocated	144,510
Total depreciation expense - governmental activities	<u>\$ 4,197,214</u>
Business-type activities:	
Water and sewer	\$ 1,870,641
Public improvement district	34,816
Total depreciation expense business-type activities	<u>\$ 1,905,457</u>

Construction Commitments

The City has entered into several construction contracts during the fiscal year, which include street improvements, replacement of water mains, and the construction of municipal facilities. As of September 30, 2005, the City had outstanding construction contracts totaling approximately \$5,600,568 that will be financed from operating funds.

	<u>Committed</u>
Non-bond projects fund	\$ 797,740
DART fund	622,898
Hotel/motel bonds capital projects fund	39,538
Landfill closure/postclosure fund	26,659
Water bond capital projects fund	74,224
Enterprise fund	804,504
TIF No. 1 District capital projects fund	3,129,560
TIF No. 2 District capital projects fund	105,445
Total	<u>\$ 5,600,568</u>

D. Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2005 consisted of the following:

Advances from / to other funds:		
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-bond capital projects fund	TIF No. 2 District fund	\$ 200,000

Purpose of Advances

Advances are used for long-term interfund loans. The advance listed above is to finance the start of construction projects in the TIF No. 2 District until adequate tax revenues have been received.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Government interfund transfers during the year ended September 30, 2005 were as follows:

TRANSFERS TO	TRANSFERS FROM			
	Major Funds			
	TIF No. 1			
	General Fund	District Capital Projects Fund	Enterprise Fund	Nonmajor Governmental Funds
PRIMARY GOVERNMENT:				
Governmental activities:				
Major funds:				
General fund	\$ 2,332,842	\$ 633,500	\$ 47,742	\$
Non-bond capital projects fund	633,500			
Total major funds	2,966,342	633,500	47,742	
Nonmajor governmental funds	1,265,500			1,523,500
Total governmental activities	4,231,842	633,500	47,742	1,523,500
Business-type activities:				
Enterprise fund			2,027,100	
Total primary government	\$ 4,231,842	\$ 633,500	\$ 47,742	\$ 2,027,100
				\$ 1,523,500

Eliminations

Interfund transfers are reported in the governmental activities and business-type activities fund financial statements. In the entity-wide statements, interfund transfers are eliminated within the governmental activities column and business-type column, as appropriate.

Purpose of Transfers

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance various programs in accordance with budgetary authorizations, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) reimburse one fund for services provided to another fund.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

E. Long-Term Debt and Obligations

Long-term debt transactions, including current portion, for the year ended September 30, 2005 are summarized as follows:

	Balance at Beginning of Year	Increase	Decrease	Balance at End of Year	Due Within One Year	Due Within More Than One Year
<u>Governmental activities</u>						
General obligation bonds	\$ 10,582,657	\$	\$ (2,991,576)	\$ 7,591,081	\$ 3,051,576	\$ 4,539,505
Special revenue bonds	12,475,000		(285,000)	12,190,000	325,000	11,865,000
Less deferred amounts:						
For issuance discounts	(26,042)		2,009	(24,033)		(24,033)
On refunding	(106,596)		25,135	(81,461)		(81,461)
Total bonds payable	22,925,019		(3,249,432)	19,675,587	3,376,576	16,299,011
Developer advances	3,415,888	3,849,257		7,265,145		7,265,145
Compensated absences	5,668,307	215,018		5,883,325	508,222	5,375,103
Claims payable	445,308		(75,288)	370,020	144,308	225,712
Landfill closure and postclosure care costs	11,080,567	1,142,317		12,222,884		12,222,884
Governmental activities long-term debt	\$ 43,535,089	\$ 5,206,592	\$ (3,324,720)	\$ 45,416,961	\$ 4,029,106	\$ 41,387,855
<u>Business-type activities</u>						
Assessment revenue bonds	\$ 3,735,000	\$	\$ (490,000)	\$ 3,245,000	\$ 500,000	\$ 2,745,000
Less deferred amounts:						
For issuance discounts	(608)		100	(508)		(508)
On refunding	(54,368)		8,937	(45,431)		(45,431)
Total bonds payable	3,680,024		(480,963)	3,199,061	500,000	2,699,061
Compensated absences	425,511	29,110		454,621	30,777	423,844
Business-type activities long-term debt	\$ 4,105,535	\$ 29,110	\$ (480,963)	\$ 3,653,682	\$ 530,777	\$ 3,122,905
Total	\$ 47,640,624	\$ 5,235,702	\$ (3,805,683)	\$ 49,070,643	\$ 4,559,883	\$ 44,510,760

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, claims payable of \$144,308 and \$125,442 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims payable and compensated absences are generally liquidated by the general fund and hotel/motel fund.

The developer advances will be liquidated from the TIF No. 1 District capital projects fund. The landfill closure and postclosure care costs will be liquidated from the landfill closure/postclosure fund.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Bonds payable at September 30, 2005 are comprised of the following individual issues:

	Interest Rate (%)	Issue Date	Maturity Date	Amount Outstanding
<u>Governmental activities</u>				
General obligation bonds:				
2002 Refunding	3.00 - 3.70	12/16/2002	8/15/2012	\$ 1,815,000
2003 Refunding	2.25 - 3.25	8/4/2003	8/15/2007	5,776,081
Total general obligation bonds				<u>7,591,081</u>
Special revenue bonds:				
1999 Hotel occupancy tax	4.65 - 6.00	7/15/1999	8/15/2014	3,325,000
2004 Combination tax and revenue	2.65 - 5.80	4/5/2004	11/1/2029	7,895,000
2004A Combination tax and revenue	2.50 - 4.60	4/5/2004	11/1/2008	970,000
Total special revenue bonds				<u>12,190,000</u>
Total governmental activities				<u>\$ 19,781,081</u>
<u>Business-type activities</u>				
Assessment revenue bonds:				
2003 Public improvement district refunding	2.50 - 3.50	12/16/2002	11/1/2010	<u>\$ 3,245,000</u>
Total business-type activities				<u>\$ 3,245,000</u>

The City currently has \$27,985,000 of authorized, but unissued, general obligation bonds.

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2005 are as follows:

Governmental activities

Year Ending September 30	<u>General Obligation Bonds</u>			<u>Special Revenue Bonds</u>		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 3,051,576	\$ 170,582	\$ 3,222,158	\$ 325,000	\$ 633,878	\$ 958,878
2007	3,099,505	95,302	3,194,807	515,000	616,984	1,131,984
2008	415,000	46,158	461,158	540,000	596,225	1,136,225
2009	420,000	33,707	453,707	565,000	573,303	1,138,303
2010	195,000	21,108	216,108	590,000	548,400	1,138,400
2011-2015	410,000	22,540	432,540	2,940,000	2,279,905	5,219,905
2016-2020				1,655,000	1,679,655	3,334,655
2021-2025				2,205,000	1,138,585	3,343,585
2026-2030				2,855,000	419,635	3,274,635
Total	<u>\$ 7,591,081</u>	<u>\$ 389,397</u>	<u>\$ 7,980,478</u>	<u>\$ 12,190,000</u>	<u>\$ 8,486,570</u>	<u>\$ 20,676,570</u>

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Business-type activities

Year Ending September 30	<u>Assessment Revenue Bond</u>		
	Principal	Interest	Total
2006	\$ 499,900	\$ 90,605	\$ 590,505
2007	519,900	76,605	596,505
2008	529,900	62,817	592,717
2009	549,900	47,005	596,905
2010	564,900	29,440	594,340
2011	579,992	10,158	590,150
Total	<u>\$ 3,244,492</u>	<u>\$ 316,630</u>	<u>\$ 3,561,122</u>

General Obligation Refunding Bonds – Due to favorable interest rates during fiscal year 2003, the City issued \$2,375,000 of Series 2002 General Obligation (GO) Refunding Bonds and \$11,145,000 of Series 2003 GO Refunding Bonds to advance refund \$13,395,000 of the City's previously issued GO bonds. Debt refunded includes \$450,000 of Series 1989 GO Bonds, \$1,775,000 of Series 1992 GO Bonds, and \$11,170,000 of Series 1993 GO Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$140,212. This amount is being netted against the new debt and amortized over the new debt's life, which is equal to the refunded debt. The transaction resulted in an economic gain of \$848,118 and a reduction of \$915,936 in future debt service payments.

Special Revenue Bonds – On April 5, 2004, the City Council authorized the issuance and sale of Combination Tax and Revenue Certificates of Obligation Taxable Series 2004 and Series 2004A (TRCO's) in the amounts of \$7,895,000 and \$970,000 respectively. These TRCO's will be used for the construction of a community ice-skating and conference facility including public parking areas. The TRCO's are to be repaid with payments from a 25-year lease with the Dallas Stars and rental of the conference facility. On November 1, 2004, construction of the Farmers Branch/Dr Pepper StarCenter and Conference Center was completed. Lease payments of \$500,000 were received from the Dallas Stars for the fiscal year ended September 30, 2005.

On August 2, 1999, the City Council authorized the issuance and sale of Combination Tax and Hotel Occupancy Tax Certificates of Obligation ("TCO's") to fund the acquisition, construction, and renovation of a convention center. These TCO's are to be repaid from hotel/motel tax revenues. The bond ordinance requires establishment of a sinking fund and deposit of amounts fully sufficient to pay principal and interest when due. The bond ordinance also provides for the customary optional redemption, at par without premium, eight years after the delivery date. The City is in compliance with all significant financial requirements as of September 30, 2005.

Assessment Revenue Refunding Bonds – Due to favorable interest rates during fiscal year 2003, the City issued \$4,210,000 of Series 2002 Combination Assessment and Utility System Revenue Refunding Bonds along with \$800,000 of previously issued debt service funds to advance refund \$4,845,000 of the City's previously issued Series 1993 Combination Assessment and Utility System Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the enterprise fund. The reacquisition price exceeded the net carrying amount of the old debt by \$70,381. This amount is being netted against the new debt and amortized over the new debt's life, which is equal to the refunded debt. The transaction resulted in an economic gain of \$307,100 and a reduction of \$461,381 in future debt service payments.

On October 18, 1993, the City Council authorized sanitary sewer system improvements consisting of enlarging sewer collector lines located within Public Improvement District Number One (the "District") of the City and the construction of a sewer interceptor line. Property owners within the District were assessed for the improvements based on each land parcel's proportionate share of the cost and these assessments are payable over the remaining life of the bonds.

The public improvement district assessments, as collected, are to be deposited into an interest and sinking fund. If the interest and sinking fund requirements are satisfied the money is deposited into a reserve fund if there is a deficiency in the reserve fund. The reserve fund must be maintained in an amount equal to the average annual principal and interest requirement. The final principal and interest payment will be paid from the reserve fund. The balance of the reserve fund at September 30, 2005 was \$590,150. Any surplus assessments are to be deposited into the interest and sinking fund. At September 30, 2005, the City's interest and sinking fund requirements totaled \$499,168. Assets restricted for sinking fund purposes, including surplus assessments, at September 30, 2005 totaled \$4,920,140. The assessments cannot be used for any other purpose until the certificates are paid in full. To the extent assessments or other funds are not sufficient, the City must provide sufficient water and sewer revenues to pay the assessment revenue bonds (including curing any deficiencies in the reserve fund). Assessments, including interest, received and deposited during the year totaled \$805,951. A portion of the assessments receivable is considered long-term since it will not be collected within one year. The City is in compliance with all significant financial requirements as of September 30, 2005.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

At September 30, 2005, the restricted assets and restriction for bond retirement are as follows:

	Assessment Revenue Bonds
Restricted cash and investments	\$ 3,085,569
Less: Current bonds payable	(500,000)
Less: Accrued interest payable	(40,835)
Restricted for bond retirement	<u>\$ 2,544,734</u>

Defeased Bonds Outstanding – In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2005, \$11,400,000 of bonds outstanding are considered defeased.

Developer Advances – In fiscal year 2002, the City entered into a development agreement, whereby American Realty Trust, Inc. and Income Opportunity Realty Investors, Inc., agreed to advance funds to the City for project costs to construct the Lakeway Boulevard Project in Tax Increment Financing District No. 1 ("TIF No. 1"). The funds advanced and interest payable may be reimbursed only from the TIF No. 1 fund to the extent such funds are on deposit in the fund. Interest accrues beginning from the date the funds are received by the City. The interest rate is the lower of six percent or the developer's actual cost of funds. This interest is calculated on a simple straight-line basis semiannually on the unpaid balance plus accrued interest to date.

Landfill Closure and Postclosure Costs – The City owns a sanitary landfill site located in the City of Lewisville, Texas. Beginning October 1, 1998, the City entered into a ten-year renewable contract with Allied Waste North America, Inc. ("Allied Waste") for the operation and management of the landfill. During the term of this agreement, Allied Waste will be responsible for contributions to a City-maintained closure/postclosure fund in order to provide resources for these costs.

The landfill operates on a "cell" basis and state and federal laws require the City to close the landfill once its capacity is reached and to monitor and maintain the site for 30 subsequent years. The site capacity of 24.5 million cubic yards will be reached in approximately 28 years. The City recognizes a portion of the final closure and post-closure care liability in each operating period even though actual final payout will not occur until the landfill is completely closed.

The amount recognized as a liability each year to date is based on the landfill capacity used as of the balance sheet date. As of September 30, 2005, the City had incurred a liability of \$12,222,884, which represents the amount of costs estimated to date based on 61% of landfill capacity used to date. The remaining estimated liability for these costs is \$7,770,483, which will be recognized as the remaining capacity is used. Additionally, the City has designated \$5,458,922 of special revenue fund balance for future landfill closure costs. The estimated cost of closure and post-closure care are subject to changes such as the effects of inflation, revision of laws, and other variables.

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

F. Segment Information

The City issued assessment revenue bonds to finance sanitary sewer improvements within Public Improvement District Number One. Both the water and sewer and public improvement district segments are accounted for in a single fund (i.e. the enterprise fund). However, investors in the assessment revenue bonds rely on the revenue generated by the assessments for repayment. Summary financial information for the public improvement district segment is presented below:

CONDENSED STATEMENT OF NET ASSETS

ASSETS	
Current assets	\$ 394,473
Restricted cash and cash equivalents	51,687
Restricted investments	3,033,882
Noncurrent assets	1,834,571
Investment in joint venture, net of accumulated depreciation	6,268,040
Deferred charges	55,631
Capital assets, net of accumulated depreciation	1,096,700
Total assets	<u>12,734,984</u>
LIABILITIES	
Noncurrent liabilities:	
Payable from restricted assets:	
Revenue bonds payable (due within one year)	500,000
Accrued interest payable (due within one year)	40,835
Revenue bonds and other payables (due in more than one year)	2,708,355
Total liabilities	<u>3,249,190</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,212,016
Restricted	5,273,778
Total net assets	<u>\$ 9,485,794</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

Depreciation	\$ (34,816)
Operating loss	<u>(34,816)</u>
Nonoperating revenues (expenses)	
Investment income	57,935
Assessment interest income	185,349
Loss of the joint venture	(67,132)
Interest expense and fiscal agent charges	<u>(121,011)</u>
Change in net assets	20,325
Net assets--beginning	9,465,469
Net assets--ending	<u>\$ 9,485,794</u>

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Capital and related financing activities	\$ 208,796
Investing activities	(157,109)
Net increase	51,687
Cash and cash equivalents - beginning of year	
Cash and cash equivalents - end of year	\$ 51,687

G. Other Information

1) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. The City has established a workers' compensation fund (an internal service fund) to account for workers' compensation uninsured risks of loss. Under this program, the workers' compensation fund provides coverage for up to a maximum of \$350,000 for each workers' compensation occurrence claim.

The costs associated with this self-insurance plan are reported as interfund transactions. Accordingly, they are treated as operating revenues of the workers' compensation fund and operating expenditures (expenses) of the other funds. Claims payable include provisions for claims reported and claims incurred, but not reported. The provision for reported claims is computed by the City's third party administrator based upon standard actuarial principles. The provision for claims incurred, but not yet reported, is estimated based on the City's experience and an actuarial study that was performed during fiscal year 2005. State law provides that the City is relieved of liability if a notice of employee injury has not been received within 30 days of the date on which the injury occurs.

At September 30, 2005, the amount of workers' compensation liabilities was \$370,020. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses (ALAE), which are primarily legal expenses. Changes in the reported liability since October 1, 2003 resulted from the following:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2003-2004	\$480,932	\$317,725	(\$353,349)	\$445,308
2004-2005	\$445,308	\$132,320	(\$207,608)	\$370,020

At September 30, 2005, workers' compensation fund cash and investments of \$572,079 were held for the purpose of funding future obligations. The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

2) Commitments and Contingencies

The City has several long-term agreements with significant commitments as follows:

- City of Dallas Water Purchase Agreement - The City purchases treated water from the City of Dallas under a 20-year contract negotiated in August 1990. The City makes payments to the City of Dallas at a rate of \$.3015 per 1,000 gallons plus \$148,434 per year for each million gallons per day rate of flow (maximum delivery rate). The City paid \$3,769,111 to the City of Dallas for the fiscal year ended September 30, 2005.
- Trinity River Authority (the "Authority") Sewage Disposal Agreement - On November 29, 1973, the City, along with other cities, entered into a 50-year contract with the Authority, whereby the Authority will provide and operate a regional wastewater treatment plant and wastewater conveyance facility constructed with the Authority's funds. In return, the cities agreed to pay for such services based on a usage formula that will provide reimbursements for operations, maintenance, and debt service payments to the Authority. The cities are jointly and severally responsible for the above payments. Each city's proportionate share is determined annually according to its contributing flow to the system. The City paid \$2,028,647 to the Authority for the fiscal year ended September 30, 2005.

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005**

The City is involved in various legal actions in which claims of varying amounts are being asserted against the City. The City follows the practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount. In the opinion of City management, these actions will not result in a significant impact on the City's financial position.

The City participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial. For the year ended September 30, 2005, grant expenditures did not exceed the threshold for the single audit requirement; therefore, a single audit was not performed.

3) Other Postemployment Benefits

The City provides postemployment health care benefits, in accordance with City policy, to all employees who retire from the City at any age with 25 years of service or over 60 years of age with ten years of service. The benefit provided by the City consists of participation in the City's health insurance plan at the same cost as an employee until age 65. At year-end, 50 retirees were covered by these benefits. The City finances the plan on a pay-as-you-go basis. For the year ended September 30, 2005, the City paid approximately \$176,500 for postemployment health care.

4) Employee Retirement System

Plan Description - The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 801 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is a theoretical amount that when added to the employee's accumulated contributions and the monetary credits for service since the plan began would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions - The contribution rate for the employees is 7% and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service cost contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2004 valuation is effective for rates beginning January 2006).

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Actuarial Assumptions – The City of Farmers Branch is one of 801 municipalities having the benefit plan administered by TMRS. Each of these municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2004 valuations are contained in the 2004 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. Significant actuarial assumptions for the City may be found in Exhibit E-1, Required Supplemental Information.

Trend Information - Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information, for which three years is required, is presented as follows:

Three-Year Trend Information for the City of Farmers Branch

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 2,992,159	100%	0
2004	3,090,902	100%	0
2005	3,263,314	100%	0

Supplemental three-year trend information may be found in Exhibit E-1.

5) New GASB Standards

GASB has issued the following statements:

In fiscal year 2005, the City has implemented GASB Statement No. 42, *"Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries."* There was no effect on fund balance as a result of implementing this statement.

Statement No. 44, *"Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1."* This statement establishes and modifies requirements related to the supplementary information presented in a statistical section. This statement will become effective for the City in fiscal year 2006. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This statement establishes standards for the measurement, recognition, and display for postemployment health care and other benefits if provided separately from a pension plan. This statement will become effective for the City in fiscal year 2009. The City has hired an actuarial firm to determine, and potentially mitigate, the impact of this statement.

Statement No. 46, *"Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34."* This statement clarifies the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting for those restricted net assets. This statement will become effective for the City in fiscal year 2007. Management has not yet determined the impact of this statement on the financial statements.

Statement No. 47, *"Accounting for Termination Benefits."* This statement establishes accounting standards for termination benefits. This statement will become effective for the City in fiscal year 2007. Management has not yet determined the impact of this statement on the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION
 SEPTEMBER 30, 2005
 (UNAUDITED)

Texas Municipal Retirement System Analysis of Funding Progress
 Last Three Fiscal Years

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Unit Credit	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2003	12/31/2002	\$ 72,830,355	\$ 89,820,196	\$ 16,989,841	81.1%	\$ 21,944,534	77.4%
2004	12/31/2003	75,542,078	95,618,530	20,076,452	79.0%	22,127,745	90.7%
2005	12/31/2004	78,387,767	97,897,512	19,509,745	80.1%	22,254,755	87.7%

Actuarial Assumptions

Actuarial Cost Method	-	Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	25 Years - Open Period
Asset Valuation Method	-	Amortized Cost
Investment Rate of Return	-	7%
Projected Salary Increases	-	None
Includes Inflation At	-	3.50%
Cost-of-Living Adjustments	-	None

OTHER SUPPLEMENTAL INFORMATION

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COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used by the City to account for the accumulation and disbursement of restricted resources. The following is a description of the City's Special Revenue Funds:

Hotel/Motel - to account for receipt and allocation of the City's hotel/motel occupancy tax. Use of this tax is limited by law to the promotion of tourism. The City hotel occupancy tax rate for its twelve hotels is 7%.

Police Forfeitures - to account for proceeds from the sale of assets seized in connection with drug arrests. Revenues are reserved for law enforcement expenditures.

Donations - to account for voluntary contributions for community improvement.

Dividend - to account for the tax dividend program which rebates surplus funds to taxpayers.

Youth Scholarship - to account for voluntary contributions for youth scholarship.

Grants - to account for grant revenues and expenditures.

Municipal Court Fees - to account for the municipal court building security fee dedicated to courthouse security and the municipal court technology fee for the purchase of technological enhancements.

Stars Center - to account for Stars/Conference Center rental revenues and transfers to debt service for bond payments.

DEBT SERVICE FUND

The Debt Service Fund accounts for the accumulation of resources for, and the payment of, governmental long-term debt principal and interest. The governmental long-term debt serviced by the Debt Service Fund consists of general obligation bonds and special revenue bonds.

CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for all resources used for the acquisition and/or construction of major capital facilities by the City, except those financed by the Enterprise Fund. The following is a description of the City's Capital Projects Funds:

Hotel/Motel Fund - to account for the construction and financing of historical park improvements, funded by hotel/motel tax revenues.

Hotel/Motel Bonds Fund - to account for expenditures for land acquisition related to the convention center property and design/renovation of existing structures on the property, funded by Combination Tax and Hotel Occupancy Tax certificates of obligation.

Non-Bond Convention Center Fund - to account for expenditures for renovation and improvements to the Convention Center, funded by transfers from the Hotel/Motel Special Revenue Fund.

Stars/Conference Center Bonds Fund - to account for construction of the Stars/Conference Center.

Water Bonds Fund - to account for the construction of various water facilities and infrastructure, funded by general obligation bonds.

TIF No. 2 District - to account for infrastructure construction in the Old Farmers Branch tax increment financing district, funded from developer contributions and advances and property tax payments.

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COMBINING BALANCE SHEET - SUMMARY
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	Special Revenue Funds	Debt Service Fund	Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash, cash equivalents, and investments	\$ 2,053,969	\$ 92,885	\$ 1,665,237	\$ 3,812,091
Receivables, net	211,583	259,435	3,455	474,473
Accrued interest and other	13,837		12,287	26,124
Inventories	3,816			3,816
Total assets	<u>\$ 2,283,205</u>	<u>\$ 352,320</u>	<u>\$ 1,680,979</u>	<u>\$ 4,316,504</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 68,588	\$		\$ 68,588
Deposits	300,000			300,000
Deferred revenue	27,065	258,442	3,455	288,962
Advances from other funds			200,000	200,000
Retainage payable			94,025	94,025
Total liabilities	<u>395,653</u>	<u>258,442</u>	<u>297,480</u>	<u>951,575</u>
Fund balances:				
Reserved for encumbrances	339,922		219,207	559,129
Reserved for construction			443,798	443,798
Reserved for debt service		93,878		93,878
Reserved for inventory	3,816			3,816
Reserved for law enforcement	615,080			615,080
Unreserved, designated	928,734		720,494	1,649,228
Total fund balances	<u>1,887,552</u>	<u>93,878</u>	<u>1,383,499</u>	<u>3,364,929</u>
Total liabilities and fund balances	<u>\$ 2,283,205</u>	<u>\$ 352,320</u>	<u>\$ 1,680,979</u>	<u>\$ 4,316,504</u>

CITY OF FARMERS BRANCH, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS

SEPTEMBER 30, 2005

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Dividend	Youth Scholarship
ASSETS					
Cash, cash equivalents, and investments	\$ 749,518	\$ 226,014	\$ 153,166	\$ 8,330	\$ 14,544
Receivables, net	210,769				
Accrued interest and other	5,357	1,601	1,153		84
Inventories	3,816				
Total assets	<u>\$ 969,460</u>	<u>\$ 227,615</u>	<u>\$ 154,319</u>	<u>\$ 8,330</u>	<u>\$ 14,628</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 53,067	\$ 5,838	\$ 9,276		\$
Deposits					
Deferred revenue	3,760	22,133			
Total liabilities	<u>56,827</u>	<u>27,971</u>	<u>9,276</u>		
Fund balances:					
Reserved for encumbrances	333,548		3,774		
Reserved for inventory	3,816				
Reserved for law enforcement		199,644			
Unreserved:					
Designated for special purposes	575,269		141,269	8,330	14,628
Total fund balances	<u>912,633</u>	<u>199,644</u>	<u>145,043</u>	<u>8,330</u>	<u>14,628</u>
Total liabilities and fund balances	<u>\$ 969,460</u>	<u>\$ 227,615</u>	<u>\$ 154,319</u>	<u>\$ 8,330</u>	<u>\$ 14,628</u>

Exhibit F-1a

Nonmajor Special Revenue Funds			Total
Grants	Municipal Court Fees	Stars Center	Nonmajor Special Revenue Funds
\$ 2,849	\$ 414,936	\$ 484,612	\$ 2,053,969
	814		211,583
13	2,693	2,936	13,837
			3,816
<u>\$ 2,862</u>	<u>\$ 418,443</u>	<u>\$ 487,548</u>	<u>\$ 2,283,205</u>
\$	\$ 407	\$	\$ 68,588
		300,000	300,000
1,172			27,065
<u>1,172</u>	<u>407</u>	<u>300,000</u>	<u>395,653</u>
	2,600		339,922
			3,816
	415,436		615,080
1,690		187,548	928,734
<u>1,690</u>	<u>418,036</u>	<u>187,548</u>	<u>1,887,552</u>
<u>\$ 2,862</u>	<u>\$ 418,443</u>	<u>\$ 487,548</u>	<u>\$ 2,283,205</u>

CITY OF FARMERS BRANCH, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS

SEPTEMBER 30, 2005

	Nonmajor Capital Projects Funds					
	Hotel/ Motel	Hotel/ Motel Bonds	Non-Bond Convention Center	Stars/Conference Center Bonds	Water Bonds	TIF No. 2 District
ASSETS						
Cash, cash equivalents, and investments	\$ 160,155	\$ 365,797	\$ 562,880	\$ 207,782	\$ 186,811	\$ 181,812
Receivables, net						3,455
Accrued interest and other	1,087	2,528	4,403	1,767	2,502	
Total assets	<u>\$ 161,242</u>	<u>\$ 368,325</u>	<u>\$ 567,283</u>	<u>\$ 209,549</u>	<u>\$ 189,313</u>	<u>\$ 185,267</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue	\$	\$	\$	\$	\$	\$ 3,455
Advances from other funds						200,000
Retainage payable			8,031	1,969	84,025	
Total liabilities			<u>8,031</u>	<u>1,969</u>	<u>84,025</u>	<u>203,455</u>
Fund balances:						
Reserved for:						
Encumbrances		39,538			74,224	105,445
Construction		328,787		207,580	31,064	(123,633)
Unreserved, designated for construction	161,242		559,252			
Total fund balances	<u>161,242</u>	<u>368,325</u>	<u>559,252</u>	<u>207,580</u>	<u>105,288</u>	<u>(18,188)</u>
Total liabilities and fund balances	<u>\$ 161,242</u>	<u>\$ 368,325</u>	<u>\$ 567,283</u>	<u>\$ 209,549</u>	<u>\$ 189,313</u>	<u>\$ 185,267</u>

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Nonmajor Capital Projects Funds	
<hr/>	
\$	1,665,237
	3,455
	12,287
<hr/>	
\$	1,680,979
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\$	3,455
	200,000
	94,025
<hr/>	
	297,480
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	219,207
	443,798
	720,494
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	1,383,499
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\$	1,680,979
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COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SUMMARY
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Property taxes	\$	\$ 3,238,319	\$	\$ 3,238,319
Hotel/motel taxes	1,965,693			1,965,693
Tax increment financing			13,494	13,494
Fines and forfeitures	134,718			134,718
Investment income	562,828		42,147	604,975
Intergovernmental	139,924			139,924
Miscellaneous	49,059			49,059
Total revenues	2,852,222	3,238,319	55,641	6,146,182
EXPENDITURES				
Current:				
General government	36,273			36,273
Public safety	315,727			315,727
Culture and recreation	1,118,252			1,118,252
Debt service:				
Principal retirement		3,220,000		3,220,000
Interest and fiscal agent charges		961,455		961,455
Capital outlay			1,777,581	1,777,581
Total expenditures	1,470,252	4,181,455	1,777,581	7,429,288
Excess (deficiency) of revenues over (under) expenditures	1,381,970	(943,136)	(1,721,940)	(1,283,106)
OTHER FINANCING SOURCES (USES)				
Transfers in	115,000	980,500	170,000	1,265,500
Transfers out	(1,523,500)			(1,523,500)
Total other financing sources (uses)	(1,408,500)	980,500	170,000	(258,000)
Net change in fund balances	(26,530)	37,364	(1,551,940)	(1,541,106)
Fund balances--beginning	1,914,082	56,514	2,935,439	4,906,035
Fund balances--ending	\$ 1,887,552	\$ 93,878	\$ 1,383,499	\$ 3,364,929

CITY OF FARMERS BRANCH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Nonmajor Special Revenue Funds				
	Hotel/ Motel	Police Forfeitures	Donations	Dividend	Youth Scholarship
REVENUES					
Hotel/motel taxes	\$ 1,965,693	\$	\$	\$	\$
Fines and forfeitures		22,095			
Investment income	26,591	4,083	3,954		288
Intergovernmental					
Miscellaneous	8,639		36,026		4,394
Total revenues	2,000,923	26,178	39,980		4,682
EXPENDITURES					
General government			36,273		
Public safety		27,727	3,746		
Culture and recreation	1,076,599		28,914		1,786
Total expenditures	1,076,599	27,727	68,933		1,786
Excess (deficiency) of revenues over (under) expenditures	924,324	(1,549)	(28,953)		2,896
OTHER FINANCING USES					
Transfers in					
Transfers out	(1,073,500)				
Total other financing uses	(1,073,500)				
Net change in fund balances	(149,176)	(1,549)	(28,953)		2,896
Fund balances--beginning	1,061,809	201,193	173,996	8,330	11,732
Fund balances--ending	\$ 912,633	\$ 199,644	\$ 145,043	\$ 8,330	\$ 14,628

Exhibit F-2a

Nonmajor Special Revenue Funds			Total
Municipal			Nonmajor
Grants	Court Fees	Stars Center	Special Revenue Funds
\$	\$	\$	\$
	112,623		1,965,693
44	5,320	522,548	134,718
139,924			562,828
			139,924
			49,059
139,968	117,943	522,548	2,852,222
			36,273
177,071	107,183		315,727
10,953			1,118,252
188,024	107,183		1,470,252
(48,056)	10,760	522,548	1,381,970
		115,000	115,000
		(450,000)	(1,523,500)
		(335,000)	(1,408,500)
(48,056)	10,760	187,548	(26,530)
49,746	407,276		1,914,082
\$ 1,690	\$ 418,036	\$ 187,548	\$ 1,887,552

CITY OF FARMERS BRANCH, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS - NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Nonmajor Capital Projects Funds					
	Hotel/ Motel	Hotel/ Motel Bonds	Non-Bond Convention Center	Stars/Conference Center Bonds	Water Bonds	TIF No. 2 District
REVENUES						
Tax increment financing	\$	\$	\$		\$	\$ 13,494
Investment income	3,730	8,671	15,104	6,060	8,582	
Total revenues	3,730	8,671	15,104	6,060	8,582	13,494
EXPENDITURES						
Capital outlay		15,065	629,051	745,105	346,769	41,591
Excess (deficiency) of revenues over (under) expenditures	3,730	(6,394)	(613,947)	(739,045)	(338,187)	(28,097)
OTHER FINANCING SOURCES						
Transfers in				170,000		
Net change in fund balances	3,730	(6,394)	(613,947)	(569,045)	(338,187)	(28,097)
Fund balances--beginning	157,512	374,719	1,173,199	776,625	443,475	9,909
Fund balances--ending	\$ 161,242	\$ 368,325	\$ 559,252	\$ 207,580	\$ 105,288	\$ (18,188)

<hr/>	
Total Nonmajor Capital Projects Funds	
<hr/>	
\$	13,494
	42,147
<hr/>	
	55,641
<hr/>	
	1,777,581
<hr/>	
	(1,721,940)
<hr/>	
	170,000
<hr/>	
	(1,551,940)
<hr/>	
	2,935,439
<hr/>	
\$	1,383,499
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**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL:**

General Fund, Special Revenue Funds, and Debt Service Fund

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SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	2005					
	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance with Final Budget -
	Original	Final	GAAP Basis	Budget Basis	Budget Basis	Positive (Negative)
REVENUES						
Property taxes	\$ 13,149,300	\$ 13,100,000	\$ 13,044,726	\$	\$ 13,044,726	\$ (55,274)
Sales and use tax	11,137,000	10,837,000	10,789,405		10,789,405	(47,595)
Franchise taxes	4,642,000	4,469,000	4,401,914		4,401,914	(67,086)
Licenses and permits	648,400	739,900	702,623		702,623	(37,277)
Charges for services	4,739,700	4,656,000	4,689,222		4,689,222	33,222
Fines and forfeitures	2,832,000	2,507,000	2,681,631		2,681,631	174,631
Investment income	620,500	655,500	565,953		565,953	(89,547)
Miscellaneous	333,000	136,800	106,459		106,459	(30,341)
Total revenues	38,101,900	37,101,200	36,981,933		36,981,933	(119,267)
EXPENDITURES						
Current:						
General government:						
General contracts	181,000	181,000	181,000		181,000	
General government	118,100	118,100	107,060	2,128	109,188	8,912
City administration	2,043,500	1,753,900	1,726,107	(47,424)	1,678,683	75,217
Communications	365,400	371,100	369,320	684	370,004	1,096
Economic development	306,200	314,200	283,451	(12,981)	270,470	43,730
Human resources	682,900	695,100	657,689	436	658,125	36,975
Finance	2,234,200	2,249,800	2,190,643	(2,930)	2,187,713	62,087
Community services	2,220,800	2,177,200	2,053,425	51,990	2,105,415	71,785
Public safety:						
Police	9,413,700	9,137,200	9,053,642	(233,360)	8,820,282	316,918
Fire	6,209,400	6,256,900	6,975,583	(287,245)	6,688,338	(431,438)
Public works:						
Public works	4,695,600	4,600,000	4,487,949	81,152	4,569,101	30,899
Engineering	2,197,000	2,258,900	2,197,051	9,911	2,206,962	51,938
Culture and recreation:						
Parks and recreation	7,417,100	7,431,700	7,194,729	20,031	7,214,760	216,940
Library	1,718,600	1,734,300	1,830,750	1,308	1,832,058	(97,758)
Total expenditures	39,803,500	39,279,400	39,308,399	(416,300)	38,892,099	387,301
Excess (deficiency) of revenues over (under) expenditures	(1,701,600)	(2,178,200)	(2,326,466)	416,300	(1,910,166)	268,034
OTHER FINANCING SOURCES (USES)						
Transfers in	2,335,100	2,335,100	2,332,842		2,332,842	(2,258)
Transfers out	(633,500)	(633,500)	(633,500)		(633,500)	
Sale of capital assets/insurance recoveries	200,000	200,000	154,147		154,147	(45,853)
Total other financing uses	1,901,600	1,901,600	1,853,489		1,853,489	(48,111)
Net change in fund balance	200,000	(276,600)	(472,977)	416,300	(56,677)	219,923
Fund balances--beginning	12,157,763	12,157,763	13,601,279	(1,443,516)	12,157,763	
Fund balances--ending	\$ 12,357,763	\$ 11,881,163	\$ 13,128,302	\$ (1,027,216)	\$ 12,101,086	\$ 219,923

CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Hotel/Motel			Police Forfeitures		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$ 2,000,000	\$ 1,965,693	\$ (34,307)	\$	\$	\$
Fines, forfeitures, and assessments				20,000	22,095	2,095
Investment income	52,500	26,591	(25,909)		4,083	4,083
Intergovernmental						
Donations and miscellaneous	9,300	8,639	(661)			
Total revenues	2,061,800	2,000,923	(60,877)	20,000	26,178	6,178
EXPENDITURES						
General government						
Public safety				97,400	27,727	69,673
Culture and recreation	1,373,500	1,110,883	262,617			
Total expenditures	1,373,500	1,110,883	262,617	97,400	27,727	69,673
Excess (deficiency) of revenues over (under) expenditures	688,300	890,040	201,740	(77,400)	(1,549)	75,851
OTHER FINANCING USES						
Transfers in						
Transfers out	(1,073,500)	(1,073,500)				
Total other financing uses	(1,073,500)	(1,073,500)				
Net change in fund balances	(385,200)	(183,460)	201,740	(77,400)	(1,549)	75,851
Fund balances--beginning	762,545	762,545		201,193	201,193	
Fund balances--ending	\$ 377,345	\$ 579,085	\$ 201,740	\$ 123,793	\$ 199,644	\$ 75,851

Donations			Dividend			Youth Scholarships		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
	3,954	3,954					288	288
36,375	36,026	(349)				3,000	4,394	1,394
36,375	39,980	3,605				3,000	4,682	1,682
49,602	33,447	16,155						
6,000	5,346	654						
39,694	28,914	10,780				5,900	1,786	4,114
95,296	67,707	27,589				5,900	1,786	4,114
(58,921)	(27,727)	31,194				(2,900)	2,896	5,796
(58,921)	(27,727)	31,194				(2,900)	2,896	5,796
168,996	168,996		8,330	8,330		11,732	11,732	
\$ 110,075	\$ 141,269	\$ 31,194	\$ 8,330	\$ 8,330	\$	\$ 8,832	\$ 14,628	\$ 5,796

(continued)

CITY OF FARMERS BRANCH, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Grants			Municipal Court Fees		
	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES						
Hotel taxes	\$	\$	\$	\$	\$	\$
Fines, forfeitures, and assessments				86,700	112,623	25,923
Investment income		44	44		5,320	5,320
Intergovernmental	157,521	139,924	(17,597)			
Donations and miscellaneous						
Total revenues	157,521	139,968	(17,553)	86,700	117,943	31,243
EXPENDITURES						
General government						
Public safety	141,568	127,946	13,622	116,240	107,183	9,057
Culture and recreation	15,953	10,953	5,000			
Total expenditures	157,521	138,899	18,622	116,240	107,183	9,057
Excess (deficiency) of revenues over (under) expenditures		1,069	1,069	(29,540)	10,760	40,300
OTHER FINANCING USES						
Transfers in						
Transfers out						
Total other financing uses						
Net change in fund balances		1,069	1,069	(29,540)	10,760	40,300
Fund balances--beginning	621	621		407,276	407,276	
Fund balances--ending	\$ 621	\$ 1,690	\$ 1,069	\$ 377,736	\$ 418,036	\$ 40,300

Stars Center			Totals		
Revised Budget	Actual Budget Basis	Variance - Positive (Negative)	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
\$	\$	\$	\$ 2,000,000	\$ 1,965,693	\$ (34,307)
			106,700	134,718	28,018
450,000	522,548	72,548	502,500	562,828	60,328
			157,521	139,924	(17,597)
			48,675	49,059	384
450,000	522,548	72,548	2,815,396	2,852,222	36,826
			49,602	33,447	16,155
			361,208	268,202	93,006
			1,435,047	1,152,536	282,511
			1,845,857	1,454,185	391,672
450,000	522,548	72,548	969,539	1,398,037	428,498
115,000	115,000		115,000	115,000	
(450,000)	(450,000)		(1,523,500)	(1,523,500)	
(335,000)	(335,000)		(1,408,500)	(1,408,500)	
115,000	187,548	72,548	(438,961)	(10,463)	428,498
			6,220,200	6,220,200	
\$ 115,000	\$ 187,548	\$ 72,548	\$ 5,781,239	\$ 6,209,737	\$ 428,498

(concluded)

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Revised Budget	Actual Budget Basis	Variance - Positive (Negative)
REVENUES			
Property taxes	\$ 3,305,300	\$ 3,238,319	\$ (66,981)
EXPENDITURES			
Principal retirement	3,220,000	3,220,000	
Interest and fiscal agent charges	1,026,000	961,455	64,545
Total expenditures	4,246,000	4,181,455	64,545
Deficiency of revenues under expenditures	(940,700)	(943,136)	(2,436)
OTHER FINANCING USES			
Transfers in	980,500	980,500	
Net change in fund balances	39,800	37,364	(2,436)
Fund balances--beginning	56,514	56,514	
Fund balances--ending	\$ 96,314	\$ 93,878	\$ (2,436)

COMBINING FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

The Internal Service Funds account for the financing services provided by one department to other departments of the City on a cost reimbursement basis. The following is a description of the City's Internal Service Funds:

Equipment Services Fund - to account for materials and supplies provided exclusively to other funds and departments of the City.

Workers' Compensation Fund - to account for the City's workers' compensation self-insurance program.

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
SEPTEMBER 30, 2005

	Equipment Services	Workers' Compensation	Total
ASSETS			
Current assets:			
Cash, cash equivalents, and investments	\$ 103,257	\$ 572,079	\$ 675,336
Inventories and prepayments	91,880		91,880
Deposits		56,000	56,000
Total current assets	195,137	628,079	823,216
Noncurrent assets:			
Capital assets:			
Nondepreciable	8,170		8,170
Depreciable, net of accumulated depreciation	192,785		192,785
Total noncurrent assets	200,955		200,955
Total assets	396,092	628,079	1,024,171
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	69,695	36,884	106,579
Claims payable		144,308	144,308
Compensated absences	48,922		48,922
Total current liabilities	118,617	181,192	299,809
Noncurrent liabilities:			
Claims payable		225,712	225,712
Compensated absences	76,520		76,520
Total noncurrent liabilities	76,520	225,712	302,232
Total liabilities	195,137	406,904	602,041
NET ASSETS			
Invested in capital assets, net of related debt	200,955		200,955
Unrestricted		221,175	221,175
Total net assets	\$ 200,955	\$ 221,175	\$ 422,130

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Equipment Services	Workers' Compensation	Total
Operating revenues			
Charges for services	\$ 1,655,363	\$	\$ 1,655,363
Contributions and miscellaneous		513,278	513,278
Total operating revenues	1,655,363	513,278	2,168,641
Operating expenses			
Personal services	696,797		696,797
Materials and supplies	844,543		844,543
Maintenance and utilities	114,023		114,023
Insurance claims and expenses		292,103	292,103
Depreciation	34,011		34,011
Total operating expenses	1,689,374	292,103	1,981,477
Operating income (loss)/change in net assets	(34,011)	221,175	187,164
Net assets--beginning	234,966		234,966
Net assets--ending	\$ 200,955	\$ 221,175	\$ 422,130

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

	Equipment Services	Workers' Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 1,655,363	\$ 542,278	\$ 2,197,641
Payments to suppliers	(910,050)	36,884	(873,166)
Payments to employees	(685,411)		(685,411)
Payments for loss claims		(367,391)	(367,391)
Net cash provided by operating activities	59,902	211,771	271,673
Cash and cash equivalents - beginning of year	43,355	360,308	403,663
Cash and cash equivalents - end of year	\$ 103,257	\$ 572,079	\$ 675,336
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating income (loss) before transfers	\$ (34,011)	\$ 221,175	\$ 187,164
Adjustments to reconcile operating loss before transfers to net cash provided (used) by operating activities:			
Depreciation	34,011		34,011
Changes in assets and liabilities:			
Decrease in inventory of materials and supplies	39,458		39,458
Decrease in deposits		29,000	29,000
Increase in accrued liabilities	12,540	36,884	49,424
Decrease in claims payable		(75,288)	(75,288)
Increase in accrued compensated absences	7,904		7,904
Net cash provided by operating activities	\$ 59,902	\$ 211,771	\$ 271,673

STATISTICAL SECTION
(Unaudited)

**Multi-Year and Other Financial and
Demographic Information**

The Multi-Year and Other Financial and Demographic Information presents multi-year data for revenues, expenditures, property tax levies and collections, assessed and estimated actual value of taxable property, property tax rates and valuations for overlapping governments, special assessment billings and collections, computation of legal debt margin, ratio of bonded debt, computation of direct and overlapping debt, ratio of debt service to general expenditures, construction activity and property values, demographic statistics, principal taxpayers, top ten water consumers, schedule of insurance policies, and miscellaneous statistics.

GOVERNMENT-WIDE REVENUES BY FUNCTION
LAST FOUR FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	PROGRAM REVENUES			GENERAL REVENUE			TOTAL
	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	TAXES	INVESTMENT EARNINGS	MISCELLANEOUS	
2002	\$ 18,927,965	\$ 106,082	\$ 2,158,650	\$ 35,985,581	\$ 2,469,126	\$ 598,576	\$ 60,245,980
2003	18,833,438	181,750	1,351,418	33,753,371	1,349,634	(1,138,493)	54,331,118
2004	19,744,451	122,933	2,944,731	33,486,025	875,291		57,173,431
2005	21,134,752	64,746	1,751,802	34,273,847	1,947,908		59,173,055

Source: Comprehensive Annual Financial Report

Note: The City of Farmers Branch first applied GASB Statement No. 34 in fiscal year 2002; therefore, government-wide financial information for years prior to fiscal year 2002 are not available.

GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST FOUR FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	GENERAL GOVERNMENT	PUBLIC SAFETY	PUBLIC WORKS	CULTURE AND RECREATION	INTEREST ON LONG-TERM DEBT	UNALLOCATED DEPRECIATION	WATER AND SEWER	PUBLIC IMPROVEMENT DISTRICT	TOTAL
2002	\$ 7,685,900	\$ 14,324,462	\$ 10,573,887	\$ 9,783,696	\$ 1,355,307	\$ 128,974	\$ 10,562,202	\$ 379,657	\$ 54,794,085
2003	7,466,295	14,541,067	11,779,719	9,764,220	1,093,578	138,735	10,666,145	234,163	55,683,922
2004	7,846,552	14,785,034	11,152,223	13,689,052	978,999	141,602	10,710,107	215,513	59,519,082
2005	7,797,289	15,536,770	10,497,625	11,041,720	1,240,816	144,510	10,269,021	222,959	56,750,710

Source: Comprehensive Annual Financial Report

Note: The City of Farmers Branch first applied GASB Statement No. 34 in fiscal year 2002; therefore, government-wide financial information for years prior to fiscal year 2002 are not available.

GENERAL GOVERNMENTAL EXPENDITURES AND OTHER USES BY FUNCTION -
 LAST TEN FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	GENERAL GOVERNMENT	PUBLIC SAFETY	PUBLIC WORKS	CULTURE AND RECREATION	OTHER	(1)	TOTAL	(2)
1996	\$ 4,727,972	\$ 9,453,993	\$ 6,213,583	\$ 5,615,786	\$ 3,538,000		\$ 29,549,334	
1997	5,320,376	10,418,208	7,175,753	5,972,558	11,325,200		40,212,095	
1998	5,216,563	11,200,359	7,229,934	6,467,859	6,355,500		36,470,215	
1999	5,603,278	12,626,520	6,548,888	6,984,667	6,313,000		38,076,353	
2000	6,340,209	12,556,520	6,989,728	7,615,633	7,155,000		40,657,090	
2001	7,034,761	13,702,297	6,804,573	8,287,692	6,448,000		42,277,323	
2002	7,669,477	13,881,317	7,064,397	8,024,120	3,873,000		40,512,311	
2003	7,396,741	14,255,541	7,154,373	8,208,649	2,925,000		39,940,304	
2004	7,746,021	15,678,103	6,552,672	8,296,717	537,500		38,811,013	
2005	7,568,695	16,029,225	6,685,000	9,025,479	633,500		39,941,899	

Source: Comprehensive Annual Financial Report

Notes:

(1) Transfers out.

(2) Includes General Fund only.

CITY OF FARMERS BRANCH, TEXAS

GENERAL REVENUES BY SOURCE -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	TAXES	(1)	LICENSES AND PERMITS	CHARGES FOR SERVICES	FINES AND FORFEITURES	INVESTMENT INCOME	INTER- GOVERNMENTAL
1996	\$ 22,650,181		\$ 365,019	\$ 6,108,774	\$ 1,360,621	\$ 1,227,028	\$ 18,200
1997	24,577,170		568,506	6,557,948	1,596,009	1,185,079	
1998	25,696,028		797,186	7,411,159	1,799,210	1,191,443	
1999	28,233,583		780,062	3,242,614	1,806,410	1,133,297	
2000	32,231,784		901,939	3,733,871	1,805,791	1,201,832	
2001	30,325,674		1,142,567	3,826,210	1,612,574	1,709,846	
2002	29,830,831		651,010	3,784,796	2,356,955	669,064	
2003	27,545,022		535,374	3,943,948	2,495,920	386,423	
2004	27,455,482		679,716	4,381,900	2,809,120	260,620	
2005	28,236,045		702,623	4,689,222	2,681,631	565,953	

Source: Comprehensive Annual Financial Report

Note:

(1) Includes General Fund revenues only.

TABLE 3

MISCELLANEOUS		TOTAL	
\$	222,999	\$	31,952,822
	330,182		34,814,894
	254,636		37,149,662
	72,476		35,268,442
	107,689		39,982,906
	47,959		38,664,830
	106,199		37,398,855
	70,914		34,977,601
	281,626		35,868,464
	106,459		36,981,933

CITY OF FARMERS BRANCH, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	TOTAL TAX LEVY	(1)	CURRENT TAX COLLECTIONS	(2)	PERCENT OF LEVY COLLECTED	(3)	DELINQUENT TAX COLLECTIONS	TOTAL TAX COLLECTIONS
1996	\$ 11,405,871		\$ 11,563,414		101.38%		\$ 72,707	\$ 11,636,121
1997	12,148,988		12,064,077		99.30%		45,114	12,109,191
1998	13,437,872		13,024,527		96.92%		68,475	13,093,002
1999	14,750,312		14,432,131		97.84%		74,092	14,506,223
2000	15,590,179		15,398,285		98.77%		4,477	15,402,762
2001	16,229,185		16,140,319		99.45%		93,109	16,233,428
2002	17,208,844		16,865,453		98.00%		27,936	16,893,389
2003	16,655,270		16,194,052		97.23%		14,459	16,208,511
2004	16,367,777		15,742,089		96.18%		78,306	15,820,395
2005	16,089,181		16,041,941		99.71%		148,891	16,190,832

Source: Dallas County Tax Office

Notes:

- (1) The original levy is as of July of the previous fiscal year and does not include any subsequent adjustments.
- (2) Collections are based on adjusted levy which may be higher or lower than original levy.
- (3) Percent is based on original levy which may be higher or lower than percent of adjusted levy.

TABLE 4

PERCENT OF TOTAL TAX COLLECTIONS TO TAX LEVY	WRITE-OFF AND OTHER ADJUSTMENTS	OUTSTANDING DELINQUENT TAXES	PERCENT OF DELINQUENT TAXES TO TAX LEVY
102.02%	\$ 344,951	\$ 599,831	5.26%
99.67%	(15,166)	593,684	4.89%
97.43%	(307,714)	696,024	5.18%
98.35%	(219,456)	720,657	4.89%
98.80%	(95,402)	644,526	4.13%
100.03%	(116,709)	700,602	4.32%
98.17%	(205,110)	560,413	3.26%
97.32%	(177,732)	1,009,679	6.06%
96.66%	(58,384)	1,106,461	6.76%
100.63%	(57,659)	1,145,905	7.12%

CITY OF FARMERS BRANCH, TEXAS

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	REAL PROPERTY		PERSONAL PROPERTY	
	ASSESSED VALUE	ACTUAL VALUE	ASSESSED VALUE	ACTUAL VALUE
1996	\$ 1,541,138,062	\$ 1,541,138,062	\$ 1,051,105,290	\$ 1,051,105,290
1997	1,672,908,302	1,672,908,302	1,088,225,350	1,088,225,350
1998	1,869,694,169	1,869,694,169	1,184,367,540	1,184,367,540
1999	2,125,734,107	2,125,734,107	1,226,609,600	1,226,609,600
2000	2,224,213,414	2,224,213,414	1,319,009,144	1,319,009,144
2001	2,355,084,026	2,355,084,026	1,333,367,123	1,333,367,123
2002	2,498,562,721	2,498,562,721	1,412,538,255	1,412,538,255
2003	2,458,906,442	2,458,906,442	1,326,382,284	1,326,382,284
2004	2,338,930,744	2,338,930,744	1,219,281,649	1,219,281,649
2005	2,232,515,259	2,232,515,259	1,021,110,818	1,021,110,818

Source: Dallas Central Appraisal District

TABLE 5

TOTAL		PERCENT OF TOTAL ASSESSED TO TOTAL ESTIMATED ACTUAL VALUE
ASSESSED VALUE	ACTUAL VALUE	
\$ 2,592,243,352	\$ 2,592,243,352	100%
2,761,133,652	2,761,133,652	100%
3,054,061,709	3,054,061,709	100%
3,352,343,707	3,352,343,707	100%
3,543,222,558	3,543,222,558	100%
3,688,451,149	3,688,451,149	100%
3,911,100,976	3,911,100,976	100%
3,785,288,726	3,785,288,726	100%
3,558,212,393	3,558,212,393	100%
3,253,626,077	3,253,626,077	100%

CITY OF FARMERS BRANCH, TEXAS

ADJUSTED PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS -
 LAST TEN FISCAL YEARS
 (PER \$100 OF ASSESSED VALUE)
 (UNAUDITED)

FISCAL YEAR	CITY DIRECT RATES			OVERLAPPING RATES (1)						
	GENERAL		DEBT SERVICE	CARROLLTON - FARMERS BRANCH	DALLAS		DALLAS COUNTY	DALLAS COUNTY HOSPITAL	DALLAS COUNTY COMMUNITY COLLEGE	
	FUND	FUND	TOTAL (2)	I.S.D.	I.S.D.					
1996	\$ 0.2922	\$ 0.1478	\$ 0.4400	\$ 1.4319	\$ 1.4181	\$ 0.2225	\$ 0.1996	\$ 0.0521		
1997	0.3069	0.1331	0.4400	1.4619	1.4605	0.2164	0.1941	0.0521		
1998	0.3110	0.1290	0.4400	1.4961	1.4605	0.2073	0.1858	0.0500		
1999	0.3277	0.1123	0.4400	1.5377	1.4605	0.2032	0.1799	0.0500		
2000	0.3352	0.1048	0.4400	1.6137	1.4605	0.2017	0.1960	0.0500		
2001	0.3414	0.0986	0.4400	1.6737	1.5475	0.2017	0.2540	0.0500		
2002	0.3486	0.0914	0.4400	1.7242	1.5475	0.2015	0.2540	0.0600		
2003	0.3511	0.0889	0.4400	1.7224	1.5875	0.2015	0.2540	0.0600		
2004	0.3670	0.0930	0.4600	1.7358	1.6395	0.2094	0.2540	0.0778		
2005	0.3965	0.0980	0.4945	1.7824	1.6694	0.2094	0.2540	0.0803		

Source: Dallas Central Appraisal District

Notes:

- (1) Overlapping rates are those of local and county governments that apply to property owners within the City of Farmers Branch. Not all overlapping rates apply to all city property owners; for example, although the county property tax rates apply to all city property owners, the Dallas Independent School District (ISD) rates apply only to the approximately 23.3% of city property owners whose property is located within that district's geographic boundaries.
- (2) The City's basic property tax rate may be increased only by a majority vote of the City Council up to the limits of State law, after which the city's residents may petition for a vote. Rates for debt service are set based on each year's requirements.
- (3) Does not include Dallas ISD as school districts do not overlap each other.

TABLE 6

TOTAL (3)	
\$	2.3461
	2.3645
	2.3792
	2.4108
	2.5014
	2.6194
	2.6797
	2.6779
	2.7370
	2.8206

CITY OF FARMERS BRANCH, TEXAS

PROPERTY TAX LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	FARMERS BRANCH	CARROLLTON- FARMERS BRANCH I.S.D.	DALLAS I.S.D.	DALLAS COUNTY
1996	\$ 11,405,871	\$ 116,656,667	\$ 518,533,151	\$ 165,988,866
1997	12,148,988	127,993,397	560,794,768	182,065,824
1998	13,437,872	152,880,860	650,103,301	198,582,049
1999	14,750,312	156,346,660	648,058,222	196,438,846
2000	15,590,179	181,588,620	714,304,951	214,152,276
2001	16,229,185	207,702,320	814,504,457	229,881,236
2002	17,208,844	228,677,587	879,160,759	249,177,867
2003	16,655,270	234,702,492	925,488,279	258,759,275
2004	16,367,777	224,290,076	947,346,797	267,269,899
2005	16,089,181	221,371,359	983,293,871	271,367,179

Source: Dallas Central Appraisal District

TABLE 7

	DALLAS COUNTY HOSPITAL		DALLAS COUNTY COMMUNITY COLLEGE
\$	159,527,420	\$	41,959,773
	163,295,478		44,164,802
	175,771,715		49,958,604
	190,828,377		49,769,926
	209,177,130		54,583,760
	289,535,888		58,700,680
	314,100,139		76,722,430
	326,177,945		79,860,112
	324,257,520		103,074,389
	329,228,427		107,927,170

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS - GENERAL GOVERNMENTAL FUND -
 LAST TEN FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	BILLINGS	ASSESSMENTS COLLECTED/ (WRITE-OFFS)	TOTAL OUTSTANDING AND DELINQUENT ASSESSMENTS
1996	\$	\$ 16,638	\$ 143,553
1997	43,846	46,930	140,469
1998			140,469
1999		2,695	137,774
2000		63,400	74,374
2001		1,040	73,334
2002			73,334
2003		(7,626)	65,708
2004		(52,190)	13,518
2005			13,518

Source: City of Farmers Branch Finance Department

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS - ENTERPRISE FUND
 LAST TEN FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	(1)	TOTAL ASSESSMENT BILLINGS	(2)	TOTAL ASSESSMENT COLLECTIONS	(2) (3)	PERCENT COLLECTED
1996		\$ 846,329		\$ 1,689,785		199.66%
1997		772,085		963,428		124.78%
1998		754,460		853,197		113.09%
1999		754,460		932,322		123.57%
2000		751,939		593,630		78.95%
2001		743,424		720,190		96.87%
2002		681,022		1,482,180		217.64%
2003		632,665		763,768		120.72%
2004		557,068		1,055,516		189.48%
2005		506,656		805,951		159.07%

Source: City of Farmers Branch Finance Department

Notes:

- (1) The annual assessment due date occurs within one day of the close of the fiscal year. A portion of the collections for a particular billing may be reflected in the following fiscal year.
- (2) Assessment billings and collections include interest.
- (3) Total collections reflect payments for assessments currently due and for assessment balances paid off during the year.

COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2005
(UNAUDITED)

Article XI, Section 5 of the State of Texas Constitution states in part:

"...but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city."

The tax rate at October 1, 2004 is \$.4945 per \$100 of assessed valuation at 100% of market value. The City operates under a Home Rule Charter which adopts the constitutional provision. The tax rate is 19.78% of the legal limit.

CITY OF FARMERS BRANCH, TEXAS

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	ASSESSED VALUE	GROSS BONDED DEBT	LESS DEBT SERVICE FUNDS	NET BONDED DEBT
1996	24,500	\$ 2,592,243,352	\$ 30,315,000	\$ 1,082	\$ 30,313,918
1997	24,500	2,761,133,652	28,300,000	61,111	28,238,889
1998	26,600	3,054,061,709	25,970,000	86,630	25,883,370
1999	26,900	3,352,343,707	23,585,000 (2)	59,237	23,525,763
2000	27,508	3,543,222,558	21,130,000 (2)	64,518	21,065,482
2001	27,508	3,688,451,149	18,590,000 (2)	81,182	18,508,818
2002	27,700	3,911,100,976	15,970,000 (2)	39,834	15,930,166
2003	28,000	3,785,288,726	13,524,233 (2)	1,075	13,523,158
2004	27,400	3,558,212,393	10,582,657 (2)	56,514	10,526,143
2005	27,595	3,253,626,077	7,591,081 (2)	93,878	7,497,203

Source: City of Farmers Branch Finance Department

Notes:

- (1) Estimates provided by North Central Texas Council of Governments with exception of fiscal years 2000 and 2001, which are based on the 2000 census.
(2) Excludes Combination Tax and Hotel Occupancy Tax Certificates of Obligation.

TABLE 10

PERCENT OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
1.17%	\$ 1,237.30
1.02%	1,152.61
0.85%	973.06
0.70%	874.56
0.59%	765.79
0.50%	672.85
0.41%	575.10
0.36%	482.97
0.30%	384.17
0.23%	271.69

COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 SEPTEMBER 30, 2005
 (UNAUDITED)

TAXING BODY	AMOUNT	PERCENTAGE OVERLAPPING	FARMERS BRANCH SHARE OF DEBT
Carrollton - Farmers Branch			
Independent School District	\$ 357,038,598	26.20%	\$ 93,544,113
Valwood Improvement Authority	13,541,905	44.44%	6,018,023
Dallas County	156,200,761	2.51%	3,920,639
Dallas County Hospital District		2.51%	
Dallas County Community College District	106,935,000	2.51%	2,684,069
Dallas Independent School District	1,269,399,288	2.10%	26,657,385
Total overlapping bonded debt	1,903,115,552		132,824,228
City of Farmers Branch (1)	7,591,081	100.00%	7,591,081
Total direct and overlapping bonded debt	<u>\$ 1,910,706,633</u>		<u>\$ 140,415,309</u>
Ratio of overlapping bonded debt to taxable assessed valuation (valued at 100% of market value)		<u>4.32%</u>	
Per capita overlapping bonded debt		<u>\$ 5,088</u>	(2)

Source: Municipal Advisory Council of Texas

Notes:

(1) Excludes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and 2004 Combination Tax and Revenue Certificates of Obligation.

(2) Based on North Central Texas Council of Governments population estimate.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT TO TOTAL GENERAL FUND EXPENDITURES -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	PRINCIPAL (1)	INTEREST (1)	TOTAL DEBT SERVICE	TOTAL GENERAL FUND EXPENDITURES (2)	RATIO OF DEBT SERVICE TO GENERAL FUND EXPENDITURES
1996	\$ 2,360,000	\$ 1,764,728	\$ 4,124,728	\$ 29,549,334	13.96%
1997	2,015,000	1,607,680	3,622,680	40,212,095	9.01%
1998	2,330,000	1,502,180	3,832,180	36,470,215	10.51%
1999	2,385,000	1,379,793	3,764,793	38,076,353	9.89%
2000	2,455,000	1,251,378	3,706,378	40,657,090	9.12%
2001	2,540,000	1,116,968	3,656,968	42,277,323	8.65%
2002	2,620,000	978,098	3,598,098	40,512,311	8.88%
2003	2,710,000	831,625	3,541,625	39,940,304	8.87%
2004	2,941,576	358,171	3,299,747	38,811,013	8.50%
2005	2,991,576	258,631	3,250,207	39,941,899	8.14%

Source: City of Farmers Branch Finance Department

Notes:

(1) Excludes Combination Tax and Hotel Occupancy Tax Certificates of Obligation.

(2) Includes transfers out.

CITY OF FARMERS BRANCH, TEXAS

CONSTRUCTION ACTIVITY AND PROPERTY VALUES -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	COMMERCIAL		RESIDENTIAL		PROPERTY VALUES	
	NUMBER OF PERMITS	VALUE	NUMBER OF PERMITS	VALUE	COMMERCIAL	RESIDENTIAL
1996	397	\$ 36,199,386	571	\$ 7,144,543	\$ 2,115,794,722	\$ 476,448,630
1997	383	48,106,497	548	28,100,622	2,274,149,038	486,984,614
1998	400	114,039,241	530	21,841,857	2,555,038,376	499,023,333
1999	418	100,876,132	506	6,032,170	2,838,684,710	513,658,997
2000	469	150,398,217	370	4,975,103	3,002,041,032	541,181,526
2001	461	168,569,040	377	5,110,219	3,106,230,097	582,221,052
2002	296	59,643,709	113	3,608,574	3,282,446,161	628,654,815
2003	270	35,110,253	132	3,829,846	3,090,389,220	694,899,506
2004	309	60,777,793	127	5,046,131	2,815,390,576	742,821,817
2005	312	61,141,000	94	18,390,000	2,478,755,910	774,870,167

Sources: City of Farmers Branch Community Services Department (Permits and Permit Values)
Dallas Central Appraisal District (Property Values)

TABLE 13

TOTAL VALUE	
\$	2,592,243,352
	2,761,133,652
	3,054,061,709
	3,352,343,707
	3,543,222,558
	3,688,451,149
	3,911,100,976
	3,785,288,726
	3,558,212,393
	3,253,626,077

DEMOGRAPHIC STATISTICS -
LAST TEN FISCAL YEARS
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	LABOR FORCE (2)	UNEMPLOYMENT RATE % (2)	INCOME PER CAPITA (3)
1996	24,500	16,156	3.6%	\$ 17,122
1997	24,500	16,654	3.5%	17,122
1998	26,600	17,084	3.2%	17,122
1999	26,900	17,174	3.0%	17,122
2000	27,508	17,457	3.1%	17,122
2001	27,508	17,948	5.2%	17,122
2002	27,700	17,735	6.5%	24,921
2003	28,000	17,396	6.5%	24,921
2004	27,400	17,076	5.5%	24,921
2005	27,595	15,282	5.3%	24,921

Sources:

- (1) Estimates provided by North Central Texas Council of Governments with exception of fiscal years 2000 and 2001, which are based on the 2000 census.
- (2) Labor force and unemployment rate figures are estimates for the City of Farmers Branch civilian labor force as of September, as provided by the Texas Workforce Commission.
- (3) Income Per Capita information is provided by the U.S. Bureau of the Census and is based on the most current census.

The following information is provided by the North Central Texas Council of Governments based on 2000 census information.

Households:	9,766	Male:	13,849
Families:	6,938	Female:	13,659

Racial Breakdown

White	21,560
Black	661
American Indian	150
Asian or Pacific Islander	813
Other	4,324

* Nativity

Born in State	13,628
Born Out-of-State	7,301
Foreign Born	7,125
Born Abroad or in Outlying Areas	271

Source: North Central Texas Council of Governments

* The figures presented may total more than the population because individuals may report more than one (single or multiple) ancestry.

PRINCIPAL TAXPAYERS
 SEPTEMBER 30, 2005
 (UNAUDITED)

TAXPAYER	NATURE OF PROPERTY	TAXABLE VALUE	PERCENTAGE OF TOTAL CERTIFIED TAXABLE VALUE
Southwestern Bell/Cingular	Telecommunications	\$ 145,157,380	4.46%
Dallas Semiconductor	Semiconductor Manufacturing	96,940,379	2.98%
Prentiss Properties Real	Real Estate Developers	62,351,510	1.92%
Occidental Chemical Tower Corp.	Chemical Production	47,598,150	1.46%
Quebecor Printing Inc.	Printing	45,405,210	1.40%
Glazers	Spirit and Wine Distribution	42,868,710	1.32%
Providence Towers Dallas	Real Estate Developers	41,179,160	1.27%
Daltex Centre LP	Real Estate Developers	39,120,600	1.20%
Stanley Mechanics Tools	Hand Tool Manufacturer	30,993,990	0.95%
IBM Corporation	Office Products	28,443,080	0.87%
		<u>\$ 580,058,169</u>	<u>17.83%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

TOP TEN WATER CONSUMERS
 SEPTEMBER 30, 2005
 (UNAUDITED)

CONSUMER	TYPE OF INDUSTRY	2004-05 CONSUMPTION (GALLONS)	% OF TOTAL CONSUMPTION	2004-05 REVENUES	% OF REVENUES
Dallas Semiconductor	Manufacturing	114,181,000	3.9%	\$ 335,028	4.0%
Lakeview at Parkside	Real Estate	47,392,000	1.6%	163,974	2.0%
Dallas County Community College District	Education	37,002,000	1.3%	115,361	1.4%
Quebecor Printing, Inc.	Printing	35,964,000	1.2%	99,966	1.2%
Brookhaven Country Club	Recreation	33,018,000	1.1%	97,007	1.2%
Omni Dallas Hotel	Hotel	31,081,000	1.1%	92,258	1.1%
Colinas Crossing	Real Estate	29,301,000	1.0%	79,400	1.0%
Ventana at Valwood	Real Estate	28,331,000	1.0%	86,769	1.0%
Cooks Creek Apartments	Real Estate	27,776,000	0.9%	91,339	1.1%
Daltex	Real Estate Developers	27,032,000	0.9%	79,325	1.0%

Source: City of Farmers Branch Finance Department

SCHEDULE OF INSURANCE POLICIES IN FORCE
 SEPTEMBER 30, 2005
 (UNAUDITED)

POLICY ISSUED BY	AM BEST RATING	POLICY NUMBER	POLICY PERIOD	COVERAGE	DEDUCTIBLES	LIABILITY LIMITS
Texas Municipal League Intergovernment Risk Pool	A++	04687	10/1/2004 9/30/2005	General Liability	\$ 50,000	\$ 2,000,000
				Property	5,000	61,979,815
				Auto Liability	25,000	1,000,000
				Auto Physical Damage	2,500	Actual Cash Value
				Law Enforcement Liability	25,000	1,000,000
				Errors & Omissions	50,000	1,000,000
				Mobile Equipment	5,000	1,369,156
				Boiler & Machinery	5,000	7,000,000
				Employee Fidelity Bond	2,500	250,000
				Workers' Compensation	N/A	350,000 *(SIR)
				Animal Mortality (K-9)	25 / 50	8,000
The Hartford Casualty Insurance Company	A+	61BSBDB6431	10/1/2004 9/30/2005	Fidelity Bond for Finance Director	2,500	250,000
Great American Express & Surplus Insurance Company	A++	BTA5279922	10/1/2004 9/30/2005	Underground Storage Tank	10,000	1,000,000

NOTES: Claims Administrators - Workers' Compensation, TML Claims, 18601 LBJ Freeway, Suite 210, Town East Tower, Mesquite, Texas 75150.

*(SIR) "Self Insured Retention"

MISCELLANEOUS STATISTICAL DATA
 SEPTEMBER 30, 2005
 (UNAUDITED)

Date of Incorporation:		April 10, 1946	
Date of City Charter Adoption:		June 18, 1956	
Form of Government:		Council - Manager	
Area - Square miles	12.5	Municipal water system:	
		Number of customers	9,444
Miles of streets and alleys:		Annual gallons of water	
Streets	133	pumped in billions	2.70
Alleys	49	Storage capacity in millions	21.5
		Miles of water mains	171.0
Miles of sewers:		Number of fire hydrants	1,864
Storm	101		
Sanitary	139.2	Number of traffic signals	49
Building Permits: YTD		City employees:	
Permits issued	406	Full-time	425.0
Value in millions (\$)	79.5	Part-time	130.0
Fire protection:		Registered voters	14,334
Number of stations	2		
Number of employees	64	Votes in last council election	999
Police protection:		Population (2000 Census)	27,508
Number of employees	114.0	North Central Texas Council of Governments	27,595
Number of sworn officers	74	Population Estimate	
Recreation:			
Parks - Number of acres	400		
Number of playgrounds	12		
Number of parks	26		

CONTINUING FINANCIAL DISCLOSURE TABLES

(Unaudited)

The Continuing Financial Disclosure Tables present various financial data originally distributed in a debt official statement. The city is required to update financial tables originally distributed in a debt official statement within six months after the end of the fiscal year ending on or after September 30, 1999. The financial tables that follow are updated through September 30, 2005, from the last debt issues that were sold July of 1999. This financial information is also sent to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the Securities and Exchange Commission ("SEC").

VALUATIONS, EXEMPTIONS, AND GENERAL OBLIGATION DEBT
(UNAUDITED)

2005/2006 Market Valuation Established by DCAD (excluding totally exempt property)		\$ 4,257,080,760
Less Exemptions/Reductions at 100% Market Value:		
Totally Exempt Parcels	\$ 206,860,760	
Tax Abatements	308,674,464	
Homestead	187,748,339	
Over 65	127,871,858	
Freeport	114,955,842	
Capped Value Loss	5,544,708	
Disabled Persons	5,356,960	
Disabled Veterans	1,345,440	
Poll Cntl	952,621	
Under 500	27,340	
Mineral Rights	1,400	
Total Exemptions		959,339,732
2005/2006 Net Taxable Assessed Valuation		\$ 3,297,741,028
City Funded Debt Payable From Ad Valorem Taxes	(1)	
Outstanding General Obligation Debt	\$ 7,591,081	
Certificates of Obligation	3,325,000	
Series 2004 Taxable Certificates	7,895,000	
Series 2004A Certificates	970,000	
City Funded Debt Payable from Ad Valorem Taxes		\$ 19,781,081
Less: Self Supporting Debt (Certificates of Obligation)	(2)	3,325,000
Series 2004 Taxable Certificates	(3)	7,895,000
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 8,561,081
General Obligation Interest and Sinking Fund		93,878
Ratio of Gross General Obligation Tax Debt to Taxable Assessed Valuation		0.600%
Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation		0.260%

2005 Estimated Population - 27,595

Per Capita Taxable Assessed Valuation - \$119,505

Per Capita Funded Debt Payable from Ad Valorem Taxes - \$310

- (1) As of September 30, 2005, the above statement of indebtedness does not include currently outstanding \$3,244,492 assessment and utility system revenue bonds, as these bonds are payable from the Pledged Assessments and Pledged Utility System Revenues. Pledged Assessments are the revenues of the City derived from a special assessment levied on property within the Public Improvement District No. 1, and the real and true owners thereof, pursuant to the Assessment Ordinance.
- (2) Self Supporting Debt consists of the City's Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 1999, which are being paid from hotel occupancy tax revenues. The City could discontinue its policy of paying such debt from hotel tax receipts, and, in lieu thereof levy an ad valorem tax or use other lawfully available funds to pay such obligations.
- (3) The City believes the Series 2004 Taxable Certificates will be self-supporting based upon amounts to be received under the Ground Lease Agreement (the "Lease") entered into by the City and the Dallas Stars, L.P., a Delaware Limited Partnership, with respect to the Facility. Payments under the Lease are not pledged to the payment of the 2004 Taxable Certificates. If the City determines not to use payments under the Lease, or if such amounts are insufficient to pay debt service on the 2004 Taxable Certificates, the City will be required to levy an ad valorem tax to pay such obligations.

TAXABLE ASSESSED VALUATIONS BY CATEGORY
(UNAUDITED)

	2006		2005		2004	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,139,792,540	26.77%	\$ 1,094,238,150	27.16%	\$ 1,067,323,700	24.27%
Real, Residential, Multi-Family	99,053,820	2.33%	101,827,920	2.53%	95,493,350	2.17%
Real, Vacant Lots/Tracts	140,287,090	3.30%	94,049,770	2.33%	156,556,220	3.56%
Real, Commercial	1,792,442,010	42.10%	1,616,208,860	40.12%	1,831,436,620	41.65%
Real, Industrial	18,148,400	0.43%	18,262,680	0.45%	19,046,140	0.43%
Real, Oil, Gas, and Other Mineral Reserves	800	0.00%	800	0.00%	800	0.00%
Real, Non-Producing Minerals	600	0.00%	700	0.00%	700	0.00%
Real and Tangible Personal, Utilities	170,512,140	4.00%	127,695,500	3.17%	150,718,140	3.43%
Tangible Personal, Commercial	643,301,960	15.11%	706,858,590	17.55%	756,525,850	17.21%
Tangible Personal, Industrial	253,541,400	5.96%	269,431,220	6.69%	319,959,400	7.28%
Total Appraised Value Before Exemptions	4,257,080,760	100.00%	4,028,574,190	100.00%	4,397,060,920	100.00%
Less: Total Exemptions/Reductions	959,339,732		774,948,113		838,848,527	
Taxable Assessed Value	<u>\$ 3,297,741,028</u>		<u>\$ 3,253,626,077</u>		<u>\$ 3,558,212,393</u>	

	2003		2002	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single Family	\$ 1,017,693,400	21.90%	\$ 910,423,860	19.64%
Real, Residential, Multi-Family	102,049,760	2.20%	88,127,120	1.90%
Real, Vacant Lots/Tracts	161,164,390	3.47%	164,374,820	3.55%
Real, Commercial	2,008,439,560	43.23%	2,026,280,230	43.71%
Real, Industrial	24,503,140	0.53%	27,667,830	0.60%
Real, Oil, Gas, and Other Mineral Reserves	800	0.00%	800	0.00%
Real, Non-Producing Minerals	700	0.00%	700	0.00%
Real and Tangible Personal, Utilities	178,992,860	3.85%	121,231,650	2.62%
Tangible Personal, Commercial	862,450,850	18.56%	950,821,570	20.51%
Tangible Personal, Industrial	290,897,990	6.26%	346,695,120	7.47%
Total Appraised Value Before Exemptions	4,646,193,450	100.00%	4,635,623,700	100.00%
Less: Total Exemptions/Reductions	860,904,724		724,522,724	
Taxable Assessed Value	<u>\$ 3,785,288,726</u>		<u>\$ 3,911,100,976</u>	

Notes:

Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

VALUATION AND GENERAL OBLIGATION DEBT HISTORY
(UNAUDITED)

FISCAL YEAR	ESTIMATED POPULATION (1)	TAXABLE ASSESSED VALUATION	TAXABLE ASSESSED VALUATION PER CAPITA (2)	G.O. TAX DEBT OUTSTANDING AT END OF YEAR	RATIO OF G.O. TAX DEBT TO TAXABLE ASSESSED VALUATION (2)	G.O. TAX DEBT PER CAPITA (2)
2002	27,700	\$ 3,911,100,976	\$ 141,195	\$ 20,105,000 (3)	0.51% (3)	\$ 726 (3)
2003	28,000	3,785,288,726	135,189	17,260,067 (3)	0.46% (3)	616 (3)
2004	27,400	3,558,212,393	129,862	22,925,019 (4)	0.64% (4)	837 (3)
2005	27,595	3,253,626,077	117,906	19,705,019 (4)	0.61% (4)	714 (4)
2006	27,600	3,297,741,028	119,483	16,299,011 (4)	0.49% (4)	591 (4)

Notes:

- (1) Based on North Central Texas Council of Governments original population estimates with the exception of current fiscal year, which is a projection.
 (2) As reported by the Dallas Central Appraisal District on the City's annual State Property Tax Report; subject to change during the ensuing year.
 (3) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation.
 (4) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation, Series 2004 Taxable Certificates, and Series 2004A Certificates.

TAX RATE, LEVY, AND COLLECTION HISTORY
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	TAX RATE	GENERAL FUND	I & S FUND	TAX LEVY	% CURRENT COLLECTIONS	% TOTAL COLLECTIONS
2001	\$ 0.4400	\$ 0.3414	\$ 0.0986	\$ 16,229,185	99.45%	100.03%
2002	0.4400	0.3486	0.0914	17,208,844	98.00%	98.17%
2003	0.4400	0.3511	0.0889	16,655,270	97.23%	97.32%
2004	0.4600	0.3670	0.0930	16,367,777	96.18%	96.66%
2005	0.4945	0.3965	0.0980	16,089,181	99.71%	100.63%

TEN LARGEST TAXPAYERS
FISCAL YEAR 2006
(UNAUDITED)

TAXPAYER	NATURE OF PROPERTY	TAXABLE VALUE	PERCENTAGE OF TOTAL CERTIFIED TAXABLE VALUE
Southwestern Bell/Cingular	Telecommunications	\$ 137,207,020	4.16%
Dallas Semiconductor	Semiconductor Manufacturing	83,110,672	2.52%
Prentiss Properties Real	Real Estate Developers	62,147,380	1.88%
Quebecor Printing Inc.	Printing	49,518,090	1.50%
Occidental Chemical Tower Corp.	Chemical Production	48,821,140	1.48%
Daltex Centre LP	Real Estate Developers	42,177,340	1.28%
Providence Towers Dallas	Real Estate Developers	41,179,160	1.25%
Glazers	Spirit and Wine Distribution	37,356,850	1.13%
Tuesday Morning PS Ltd	Retail	34,224,509	1.04%
Stanley Mechanics Tools	Hand Tool Manufacturer	28,957,880	0.88%
		<u>\$ 564,700,041</u>	<u>17.12%</u>

Source: Dallas County, "City Report of Property Value," City of Farmers Branch

TAX ADEQUACY
(UNAUDITED)

2006 Principal and Interest Requirements (1)	\$ 4,181,036
\$0.1281 Tax Rate at 99% Collection Produces	4,182,162
Average Annual Principal and Interest Requirements, 2005-2014 (1)	3,184,116
\$0.0976 Tax Rate at 99% Collection Produces	3,186,409

Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

CITY OF FARMERS BRANCH, TEXAS

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS
(UNAUDITED)

FISCAL YEAR	OUTSTANDING DEBT (1)			CERTIFICATES OF OBLIGATION (2)		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2006	\$ 3,051,576	\$ 170,582	\$ 3,222,158	\$ 325,000	\$ 633,878	\$ 958,878
2007	3,099,505	95,302	3,194,807	515,000	616,984	1,131,984
2008	415,000	46,158	461,158	540,000	596,225	1,136,225
2009	420,000	33,707	453,707	565,000	573,303	1,138,303
2010	195,000	21,108	216,108	590,000	548,400	1,138,400
2011	410,000	22,540	432,540	2,940,000	2,279,905	5,219,905
2012				1,655,000	1,679,655	3,334,655
2013				2,205,000	1,138,585	3,343,585
2014				2,855,000	419,635	3,274,635
	<u>\$ 7,591,081</u>	<u>\$ 389,397</u>	<u>\$ 7,980,478</u>	<u>\$ 12,190,000</u>	<u>\$ 8,486,570</u>	<u>\$ 20,676,570</u>

Notes:

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Combination Tax and Hotel Occupancy Tax Certificates of Obligation - average life of issue - 9.074 years. Combination Tax and Revenue Certificates of Obligation Series 2004 - average life of issue - 16.657 years. Combination Tax and Revenue Certificates of Obligation Series 2004A - average life of issue - 14.98 years.

SPECIAL ASSESSMENT DEBT SERVICE REQUIREMENTS
(UNAUDITED)

FISCAL YEAR	ASSESSMENT BONDS (1)			TOTAL DEBT SERVICE REQUIREMENTS	% OF PRINCIPAL RETIRED
	PRINCIPAL	INTEREST	TOTAL		
2006	\$ 499,900	\$ 90,605	\$ 590,505	\$ 590,505	15.41%
2007	519,900	76,605	596,505	596,505	31.43%
2008	529,900	62,817	592,717	592,717	47.76%
2009	549,900	47,005	596,905	596,905	64.71%
2010	564,900	29,440	594,340	594,340	82.12%
2011	579,992	10,158	590,150	590,150	100.00%
	<u>\$ 3,244,492</u>	<u>\$ 316,630</u>	<u>\$ 3,561,122</u>	<u>\$ 3,561,122</u>	

Notes:

(1) Average life of the issue - 4.529 years.

TABLE CD-7

TOTAL DEBT SERVICE REQUIREMENTS		% OF PRINCIPAL RETIRED
\$	4,181,036	17.07%
	4,326,791	35.34%
	1,597,383	40.17%
	1,592,010	45.15%
	1,354,508	49.12%
	5,652,445	66.05%
	3,334,655	74.42%
	3,343,585	85.57%
	3,274,635	100.00%
\$	28,657,048	

INTEREST AND SINKING FUND BUDGET PROJECTION
(UNAUDITED)

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/06	(1)		\$ 4,181,036
Interest and Sinking Fund, 9/30/05		\$ 93,878	
Interest and Sinking Fund Tax Levy @ 99% Collection		3,237,200	
Transfer for Hotel Occupancy Tax Debt Service		470,200	
Transfer for Tax and Revenue Debt Service		499,500	
Estimated Investment Income			4,300,778
Estimated Balance 9/30/06			<u>\$ 119,742</u>

Note:

(1) Includes Combination Tax and Hotel Occupancy Tax Certificates of Obligation and Combination Tax and Revenue Certificates of Obligation.

COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾
(UNAUDITED)

Hotel/Motel Occupancy Tax Revenues	(2)	\$	1,965,693
Less: Requirements for Hotel Occupancy Tax Certificates of Obligation			465,185
Balance Available for Other Purposes		\$	<u>1,500,508</u>

Notes:

(1) The City has determined that the Series 2004 Taxable Certificates will be self-supporting general obligation debt based upon amounts to be received under the terms of a Ground Lease Agreement (the "Lease") between the City and the lessee, the Dallas Stars L.P. (the "Dallas Stars"), which Lease relates to the community-style recreational ice-skating and conference facility being financed in part with the proceeds of the Series 2004A Certificates and in part with the proceeds of the Series 2004 Taxable Certificates. The obligation of the Dallas Stars to make lease payments to the City to support the payment of the Series 2004 Taxable Certificates is dependent on the satisfaction of certain initial and ongoing requirements in the Lease, particularly including the Lease provision that a certificate of occupancy be issued for the ice skating facility prior to the commencement of the lease term. The City is of the view that such lease provisions are customary, but anticipates that a portion of the debt service for the Certificates during the construction period of the facility will be funded from transfers from other available sources.

(2) The City's Series 1999 Certificates of Obligation are secured by a pledge of the ad valorem taxes and receipts from the 7% hotel occupancy tax collected by the City for the promotion of tourism in the City. Since the Series 1999 Certificates of Obligation were issued, the City has transferred hotel tax revenues to the debt service fund to pay debt service on the Series 1999 Certificates of Obligation and anticipates that it will continue to do so to pay the outstanding Series 1999 Certificates of Obligation.

HOTEL/MOTEL TAX REVENUE
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>FISCAL YEAR</u>	<u>HOTEL/MOTEL TAX REVENUE</u>	<u>NUMBER OF ROOMS</u>
1996	\$ 2,010,600	1,862
1997	2,028,373	1,862
1998	2,140,128	1,945
1999	2,289,980	2,212
2000	2,803,435	2,207
2001	2,534,403	2,207
2002	2,026,831	2,172
2003	1,797,279	2,172
2004	1,786,530	2,173
2005	1,965,693	2,194

HOTEL OCCUPANCY TAXPAYERS
 SEPTEMBER 30, 2005
 (UNAUDITED)

HOTEL	NUMBER OF ROOMS	TAXES PAID	% OF TOTAL
Omni @ Park West	337	\$ 565,668	28.78%
Wyndham Dallas North	310	346,320	17.62%
Holiday Inn Select North Dallas	377	235,202	11.97%
Renaissance Dallas North Hotel	289	292,175	14.86%
Doubletree Club Hotel	160	210,785	10.72%
Fairfield Inn	107	95,643	4.87%
LaQuinta Inn	122	61,654	3.14%
Best Western Dallas North	160	43,560	2.22%
Econolodge Dallas Airport North	120	31,649	1.61%
Studio Plus	86	28,619	1.46%
Comfort Inn North Dallas	50	27,917	1.42%
Days Inn North Dallas	72	26,078	1.33%
Villas at Parkside	2	247	0.00%
Chateau Ritz	2	176	0.00%
	<u>2,194</u>	<u>\$ 1,965,693</u>	<u>100.00%</u>

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS
(UNAUDITED)

PURPOSE	DATE AUTHORIZED	AMOUNT AUTHORIZED	AMOUNT PREVIOUSLY ISSUED	UNISSUED BALANCE
Park Improvements	1985	\$ 6,925,000	\$ 2,500,000	\$ 4,425,000
Street Improvements	1985	20,060,000	10,340,000	9,720,000
Firefighting Equipment	1985	1,005,000	215,000	790,000
Recreation Center	1985	735,000		735,000
Police Facilities	1985	120,000	15,000	105,000
Municipal Service Center	1985	1,940,000		1,940,000
Drainage & Erosion	1985	9,270,000	7,945,000	1,325,000
Water System Improvements	1985	16,695,000	8,750,000	7,945,000
Transit Facility	1985	1,000,000		1,000,000
		<u>\$ 57,750,000</u>	<u>\$ 29,765,000</u>	<u>\$ 27,985,000</u>

GENERAL FUND REVENUE AND EXPENDITURE HISTORY
FISCAL YEARS ENDED SEPTEMBER 30
(UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2005	2004	2003	2002	2001
REVENUES					
Property, sales, and franchise taxes	\$ 28,236,045	\$ 27,455,482	\$ 27,545,022	\$ 29,830,831	\$ 30,325,674
Licenses and permits	702,623	679,716	535,374	651,010	1,142,567
Charges for services	4,689,222	4,381,900	3,943,948	3,784,796	3,826,210
Fines and forfeitures	2,681,631	2,809,120	2,495,920	2,356,955	1,612,574
Investment income	565,953	260,620	386,423	669,064	1,709,846
Miscellaneous	106,459	281,626	70,914	106,199	47,959
Total revenues	36,981,933	35,868,464	34,977,601	37,398,855	38,664,830
EXPENDITURES					
Current:					
General government	7,568,695	7,746,021	7,396,741	7,669,477	7,238,786
Public safety	16,029,225	15,678,103	14,255,541	13,881,317	13,702,297
Public works	6,685,000	6,552,672	7,154,373	7,064,397	6,804,573
Culture and recreation	9,025,479	8,296,717	8,208,649	8,024,120	8,083,667
Total expenditures	39,308,399	38,273,513	37,015,304	36,639,311	35,829,323
Excess (deficiency) of revenues over (under) expenditures	(2,326,466)	(2,405,049)	(2,037,703)	759,544	2,835,507
OTHER FINANCING SOURCES (USES)					
Transfers in	2,332,842	2,332,632	2,301,900	2,282,520	1,666,968
Transfers out	(633,500)	(537,500)	(2,925,000)	(3,873,000)	(6,448,000)
Sale of capital assets/insurance recoveries	154,147	268,878	22,548	106,229	66,492
Total other financing uses	1,853,489	2,064,010	(600,552)	(1,484,251)	(4,714,540)
Net change in fund balance	(472,977)	(341,039)	(2,638,255)	(724,707)	(1,879,033)
Fund balances--beginning	13,601,279	13,942,318	16,580,573	17,305,280 (1)	19,184,313 (1)
Fund balances--ending	\$ 13,128,302	\$ 13,601,279	\$ 13,942,318	\$ 16,580,573	\$ 17,305,280 (1)

(1) Restated.

MUNICIPAL SALES TAX HISTORY
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	TOTAL COLLECTED	% OF AD VALOREM TAX LEVY	EQUIVALENT OF AD VALOREM TAX RATE	PER CAPITA
2001	\$ 13,625,352	83.96%	\$ 0.3694	\$ 495.32
2002	11,556,669	67.16%	0.2955	417.21
2003	10,048,764	60.33%	0.2655	358.88
2004	10,277,538	62.79%	0.2888	375.09
2005	10,789,405	67.06%	0.3316	390.99

The sales tax breakdown for the City is as follows:

Dallas Area Rapid Transit	1.00¢
City Sales and Use Tax	1.00¢
State Sales and Use Tax	6.25¢
Total	<u>8.25¢</u>

CURRENT INVESTMENTS
 SEPTEMBER 30, 2005
 (UNAUDITED)

DESCRIPTION OF INVESTMENT	% OF PORTFOLIO	PURCHASE PRICE	MARKET VALUE
Treasury Notes	17.48%	\$ 9,165,660	\$ 9,193,050
Fannie Mae Notes	28.13%	14,756,269	14,694,592
Freddie Mac Notes	10.09%	5,293,444	5,224,948
Federal Home Loan Bank Notes	26.66%	13,984,628	13,680,962
Farmer Mac	4.36%	2,288,138	2,173,815
Federal Farm Credit Bank Note	7.59%	3,980,400	3,973,760
Repurchase Agreements	5.69%	2,983,937	2,983,937
	100.00%	\$ 52,452,476	\$ 51,925,064

SPECIAL ASSESSMENT COLLECTIONS AND DEBT SERVICE - ENTERPRISE FUND
 FISCAL YEARS ENDED SEPTEMBER 30
 (UNAUDITED)

FISCAL YEAR (1)	DEBT SERVICE REQUIREMENTS (2)	TOTAL ASSESSMENTS BILLED OR DUE FOR PAYMENT	TOTAL ASSESSMENTS COLLECTED (3) (4)
1994	\$ 635,900	\$	\$ 38,515
1996	932,308	846,329	1,689,785
1997	929,308	772,085	963,428
1998	930,558	754,460	853,197
1999	930,808	754,460	932,322
2000	930,058	751,939	593,630
2001	928,308	743,424	720,190
2002	758,605	681,022	1,482,180
2003	664,417	632,665	763,768
2004	594,830	557,068	1,055,516
2005	595,355	506,656	805,951
2006	590,505	506,656	
2007	596,505	506,656	
2008	592,718	506,656	
2009	596,905	506,656	
2010	594,340	506,656	
2011	590,150	506,656	

(1) The annual assessment due date occurs within one day of the close of the fiscal year. A portion of the collections for a particular billing may be reflected in the following fiscal year.

(2) A portion of the debt service due in 1994 and 1995 was paid from capitalized interest funded in the amount of \$929,393 from the proceeds of the Refunded Obligations. Amounts shown reflect effects of an extraordinary optional redemption on July 1, 2000 of \$3,315,000 from excess assessment collections. The City anticipates that the final year of debt service will be paid from amounts on deposit in the Reserve Fund.

(3) Some assessments in 1994 were prepaid prior to the commencement of billing. Assessment billings and collections include interest.

(4) Total collections reflect payments for assessments currently due and for assessment balances paid off during the year.

HISTORICAL WATER AND WASTEWATER USAGE
 LAST FIVE FISCAL YEARS
 (UNAUDITED)

FISCAL YEAR	WATER USAGE AMOUNT IN GALLONS (000)			WASTE WATER CONSUMPTION AMOUNT IN GALLONS (000)
	TOTAL CONSUMPTION	PEAK DAY	AVERAGE DAY	TOTAL USAGE
2001	3,466,283	18,476	8,870	2,160,775
2002	3,098,534	18,426	8,440	2,164,228
2003	3,202,345	17,765	8,752	2,196,523
2004	2,867,538	13,556	7,192	1,991,700
2005	2,950,227	14,813	7,386	1,709,434

MONTHLY WATER AND SEWER RATES
SEPTEMBER 30, 2005
(UNAUDITED)

<u>GALLONS</u>	<u>WATER RATES</u>	<u>SEWER RATES</u>
Base 2,000 (Minimum)	\$ 9.20	\$ 9.61
Next 8,000	2.71	1.30
Next 10,000	2.81	1.30 (1)
Over 20,000	2.92	1.30 (1)

Note:

(1) Private residents are not charged for sewer beyond 10,000 gallons.

CONDENSED STATEMENT OF WATER AND SEWER SYSTEM OPERATIONS
 FISCAL YEARS ENDED SEPTEMBER 30
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2005	2004	2003	2002	2001
REVENUES					
Charges for services	\$ 12,010,694	\$ 10,887,334	\$ 10,813,689	\$ 11,003,331	\$ 11,374,266
Investment income	169,269	93,944	208,977	397,468	848,750
Miscellaneous	7,311	1,431	2,408	2,619	31,547
Total revenues	<u>12,187,274</u>	<u>10,982,709</u>	<u>11,025,074</u>	<u>11,403,418</u>	<u>12,254,563</u>
EXPENDITURES					
Personal services	1,880,353	1,827,971	1,809,646	1,754,963	1,723,308
Materials and supplies	132,663	132,532	116,885	97,689	128,374
Maintenance and utilities	617,381	1,228,915	1,014,426	1,176,936	913,993
Purchase of water	3,769,111	3,553,117	3,651,392	3,484,888	3,563,512
Sewage treatment	2,028,647	2,117,145	2,235,130	2,193,699	2,178,028
Total expenditures	<u>8,428,155</u>	<u>8,859,680</u>	<u>8,827,479</u>	<u>8,708,175</u>	<u>8,507,215</u>
Net available for debt service	<u>\$ 3,759,119</u>	<u>\$ 2,123,029</u>	<u>\$ 2,197,595</u>	<u>\$ 2,695,243</u>	<u>\$ 3,747,348</u>
CUSTOMERS	9,444	9,442	9,467	9,433	9,405

Note: The above calculation of amounts available for payment of system debt service excludes non-cash expenses such as depreciation and amortization. Debt service payments are also excluded. Certain non-cash revenue sources, principally investment income, are included.

VALUE OF WATER AND SEWER SYSTEM
FISCAL YEARS ENDED SEPTEMBER 30
(UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2005	2004	2003	2002	2001
FIXED ASSETS					
Land	\$ 603,364	\$ 603,364	\$ 603,364	\$ 603,364	\$ 95,466
Buildings, improvements and infrastructure	73,174,563	70,314,657	69,281,085	68,829,458	45,239,459
Equipment	2,212,247	2,154,348	2,226,420	2,244,970	1,465,884
Construction in progress	2,476,987	4,714,884	5,930,045	2,082,497	2,015,474
Total value	78,467,161	77,787,253	78,040,914	73,760,289	48,816,283
Less depreciation	38,867,175	36,975,708	35,330,146	33,471,091	28,006,882
Net system value	\$ 39,599,986	\$ 40,811,545	\$ 42,710,768	\$ 40,289,198	\$ 20,809,401

CITY'S EQUITY IN WATER AND SEWER SYSTEM
 FISCAL YEARS ENDED SEPTEMBER 30
 (UNAUDITED)

	FISCAL YEARS ENDED SEPTEMBER 30				
	2005	2004	2003	2002	2001
RESOURCES					
Net system value	\$ 39,599,986	\$ 40,811,545	\$ 42,710,768	\$ 40,289,198	\$ 20,809,401
Cash, investments, receivables, and prepaid items	9,799,616	9,452,476	10,419,515	12,965,059	13,010,416
Total resources	49,399,602	50,264,021	53,130,283	53,254,257	33,819,817
OBLIGATIONS					
Restricted liabilities	122,717	112,035	84,198	87,835	88,685
Current liabilities	730,049	1,460,822	2,845,217	1,694,426	1,408,924
Liability for compensated absences	454,621	425,511	419,192	445,280	423,093
Total obligations	1,307,387	1,998,368	3,348,607	2,227,541	1,920,702
Equity in system	\$ 48,092,215	\$ 48,265,653	\$ 49,781,676	\$ 51,026,716	\$ 31,899,115

